

**STATE OF ILLINOIS
LAKE COUNTY
REGIONAL OFFICE OF EDUCATION NO. 34**

**FINANCIAL AUDIT
In Accordance with the Single Audit Act and OMB Circular A-133
FOR THE YEAR ENDED JUNE 30, 2010**

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



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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

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**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
OFFICIALS**

Regional Superintendent
(current and during the audit period)

Honorable Roycealee J. Wood

Assistant Regional Superintendent
(current and during the audit period)

Mr. Gary E. Pickens

Office is located at:

800 Lancer Lane Street
Grayslake, Illinois 60030-2656

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
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	5	1
Repeated audit findings	1	1
Prior recommendations implemented or not repeated	–	–

Details of audit findings are presented in a separate section of this report.

Certain additional matters which are less than significant deficiencies or material weaknesses but more than inconsequential, have been reported in a Management Letter of Comments to the Regional Superintendent. In prior years, these issues may have been included as immaterial findings in the auditors' reports.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
10-1	13	Controls Over Financial Statement Preparation	Material Weakness
10-2	16	Failure to Apply Appropriate Accounting Principles	Significant Deficiency
10-3	19	Controls for Reporting Accrued Compensated Absences	Material Weakness
10-4	21	Inadequate Controls Over Purchased Services Expenditures	Significant Deficiency
10-5	23	Inadequate Documentation for Payroll Expenditures	Significant Deficiency and Noncompliance
FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)			
10-5	23	Inadequate Documentation for Payroll Expenditures	Significant Deficiency and Noncompliance

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
COMPLIANCE REPORT SUMMARY**

SUMMARY OF FINDINGS AND QUESTIONED COSTS (Continued)

PRIOR FINDINGS NOT REPEATED (*GOVERNMENT AUDITING STANDARDS*)

None

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

None

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on June 17, 2011. Attending were:

Lake County Regional Office of Education No. 34

Honorable Roycealee J. Wood, Regional Superintendent
Gary E. Pickens, Assistant Regional Superintendent
Kay Klemens, Accountant
Mary Marchetti, ESD Office Administrator

E. C. Ortiz & Co., LLP

Leilani N. Rodrigo, Partner
Carmen Vallarta, Senior

Responses to the recommendations were provided by Kay Klemens, Accountant, in a letter dated June 3, 2011.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
FINANCIAL STATEMENT REPORT SUMMARY**

The audit of the accompanying basic financial statements of the Lake County Regional Office of Education No. 34 was performed by E. C. Ortiz & Co., LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Lake County Regional Office of Education No. 34'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 the Lake County Regional Office of Education No. 34, as of and for the year ended June 30, 2010, which collectively comprise the Lake County Regional Office of Education No. 34's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Regional Office of Education No. 34'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Lake County Regional Office of Education No. 34, as of June 30, 2010, 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 August 11, 2011 on our consideration of the Lake County Regional Office of Education No. 34'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 on pages 36 thorough 41, the Other Postemployment Benefits - Schedule of Funding Progress, and the Other Postemployment Benefits Plan - Schedule of Employer Contributions on page 77, 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 Lake County Regional Office of Education No. 34'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. 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
August 11, 2011



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

Honorable William G. Holland
Auditor General
State of Illinois

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 Lake County Regional Office of Education No. 34, as of and for the year ended June 30, 2010, which collectively comprise the Lake County Regional Office of Education No. 34's basic financial statements and have issued our report thereon dated August 11, 2011. 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 Lake County Regional Office of Education No. 34's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned

functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-1 and 10-3 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-2, 10-4, and 10-5 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Regional Office of Education No. 34'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 10-5.

We also noted certain matters that we reported to management of the Lake County Regional Office of Education No. 34 in a separate letter dated August 11, 2011

The Lake County Regional Office of Education No. 34's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Lake County Regional Office of Education No. 34's responses and, accordingly, we express no opinion on them.

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 entity, 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
August 11, 2011



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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 Lake County Regional Office of Education No. 34's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Lake County Regional Office of Education No. 34's major federal programs for the year ended June 30, 2010. The Lake County Regional Office of Education No. 34's major federal programs are identified in the summary of the auditors' 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 Lake County Regional Office of Education No. 34's management. Our responsibility is to express an opinion on the Lake County Regional Office of Education No. 34'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 Lake County Regional Office of Education No. 34'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 Lake County Regional Office of Education No. 34's compliance with those requirements.

In our opinion, the Lake County Regional Office of Education No. 34 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with

those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 10-5.

Internal Control Over Compliance

The management of the Lake County Regional Office of Education No. 34 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 Lake County Regional Office of Education No. 34's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying Schedule of Findings and Questions Costs as item 10-5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Lake County Regional Office of Education No. 34's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Lake County Regional Office of Education No. 34's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, others within the entity, 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. Artiz & Co., LLP

Chicago, Illinois
August 11, 2011

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part I: Summary of the Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes No

Type of auditors' 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 No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title I Grants to Local Educational Agencies
	ARRA State Fiscal Stabilization Recovery Act Cluster:
84.394A	ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act
84.397A	ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act

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

Auditee qualified as low-risk auditee? Yes No

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings

FINDING NO. 10-1 - Controls Over Financial Statement Preparation

Criteria/Specific Requirement:

The Lake County Regional Office of Education No. 34 (ROE No. 34) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The ROE No. 34's internal control over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

Condition:

The ROE No. 34 does not have sufficient internal controls over the financial reporting process. The ROE No. 34 maintains their accounting records on the cash basis of accounting. While the ROE No. 34 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statements misstatements and disclosure omissions in a timely manner.

- The ROE No. 34 did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable or deferred revenue. While the ROE No. 34 maintained records to support the balances of accounts receivable, accounts payable and deferred revenue, not all entries were made by the Regional Office to reconcile their grant activity, such as posting grants receivable and deferred revenue.
- The ROE No. 34's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP. These included multiple adjusting entries from the prior year's audit that were not recorded in the general ledger. In addition, many of the fund balance accounts listed on the trial balance received from the Regional Office did not agree to the amounts reported in the prior year. The Regional Office made adjustments to the beginning fund balances, however, for financial statement preparation, the prior year ending balances were used as the beginning balances.
- Trial balance reports for 36 funds had positive or negative amounts, rather than being \$0. Also, trial balance reports for 10 funds had Reserve for Encumbrance accounts totaling \$66,232 as of June 30, 2010. The Reserve for Encumbrance was set up to keep track of various expenditures payable as of June 30.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-1 - Controls Over Financial Statement Preparation (Continued)

Condition (Continued):

- A bank account for the Regional Safe School Program fund with a bank statement balance totaling \$549,873 as of June 30, 2010 was not reconciled with the general ledger balance totaling \$149,091 resulting in a difference of \$400,782. Based on our review of transactions, the difference consisted of deposited but unrecorded receipts totaling \$720,309, unrecorded disbursements totaling \$20,281, and unrecorded FY 2009 audit adjustments that decreased the cash balance by \$299,246. Adjusting entries were subsequently proposed to record these transactions in the general ledger.
- Balances of income statement (nominal) accounts from the trial balance and general ledger for the Regional Safe School Program captured only the transactions from January 1, 2010 through June 30, 2010. Balances of the same nominal accounts from July 1, 2009 through December 31, 2009 were closed into the fund balance account. Auditors had to review the detail of cash receipts and disbursements for the July 1, 2009 through December 31, 2009 time period in order to determine the proper account balances. In addition, account codes and descriptions used in the trial balance and general ledger for this program were not in accordance with the ROE Account Code Structure prescribed by the ROE Accounting Manual.
- Errors were noted during our review of individual account balances. For example, investments totaling \$24,714 were recorded as accounts receivable and \$71,115 due to other governmental units were recorded as accounts payable.

Effect:

The ROE No. 34, in the normal course of performing their assigned functions, may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause:

According to the ROE No. 34's management, delays in receiving the auditors' FY 09 adjusting journal entries impacted the Regional Office's ability to maintain up-to-date accounts and accurate balances. In addition, delays in payments of grant funds by the State of Illinois severely affected closeout of the year's accounts and contributed to insufficiency of funding to adequately train accounting personnel to prepare financial statements in compliance with GAAP, as required by GASB.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-1 - Controls Over Financial Statement Preparation (Continued)

Recommendation:

As part of its internal control over the preparation of its financial statements, including disclosures, the ROE No. 34 should implement comprehensive preparation and/or review procedures to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE No. 34's activities and operations.

Management's Response:

The ROE No. 34 agrees with the finding. The ROE No. 34 will implement preparation and/or review procedures to ensure that financial statements, including disclosures, are complete and accurate.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-2 - Failure to Apply Appropriate Accounting Principles

Criteria/Specific Requirement:

Generally accepted accounting principles require that a lease be capitalized if any one of 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. In addition, sound internal controls require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained properly.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* defines Reciprocal Interfund Activities as interfund activities that have many of the same characteristics of exchange and exchange-like transactions that occur with external parties. Loans should be reported as interfund receivables by the lender fund and interfund payables by the borrower fund. A fund may also incur Interfund Reimbursements, an expenditure or expense that will subsequently be reimbursed by another fund. Interfund Reimbursements should not be reported in the governmental entity's financial statements as revenues and expenses in order to avoid "double counting" of revenues and expenses/expenditure items.

Condition:

Lake County Regional Office of Education No. 34 (ROE No. 34) did not properly record several transactions and, as a result, did not properly apply the appropriate generally accepted accounting principles (GAAP).

- For FY 2010, payments on leases of certain equipment with lease terms equal to the estimated economic life of the leased property, were treated as operating leases and recorded as purchased services (\$48,499). These leases met the criteria for capital leases. As of June 30, 2010, the net book value of the leased equipment and the present value of the related leases payable were \$114,482 and \$111,829, respectively.
- The ROE No. 34 capitalizes items costing \$5,000 or more. The capitalized assets and related depreciation expense were recognized in the governmental and business-type activities of the government-wide Statement of Net Assets. Based on our review of the schedule of capitalized assets and related depreciation (schedule), the following were noted:

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-2 - Failure to Apply Appropriate Accounting Principles (Continued)

Condition (Continued):

- a. Items costing less than \$5,000 were included in the schedule,
 - b. Two of six capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations,
 - c. Four of six capital lease equipment items tested were not included in the schedule, and
 - d. Due to an inaccurate basis of calculating the depreciation expense, the computed net book value and depreciation expense was overstated by \$52,268 and understated by \$12,001, respectively.
- Interfund receipts and disbursements pertaining to reimbursements of TRS and THIS employee' contributions (\$181,106) were recorded as revenues and expenses instead of receivables and payables.

Auditors proposed adjusting entries to record the above transactions in accordance with GAAP.

Effect:

Failure to apply the applicable generally accepted accounting principles may result in inaccurate and incomplete financial statements. In addition, failure to update the property schedule results in inaccurate and incomplete property records.

Cause:

According to the ROE No. 34's management:

- The ROE No. 34 generally does not keep the equipment items through the end of the lease term and considered the recording of the lease transactions as purchased services proper.
- For monitoring purposes, the ROE No. 34 maintains a fixed asset listing with equipment items costing \$500 and above. The ROE No. 34 did not properly exclude items below the capitalization threshold of \$5,000 when calculating and recording fixed asset additions and depreciation expense. In addition, the ROE No. 34 did not have personnel with adequate training and knowledge to record capital lease transactions in accordance with GAAP.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-2 - Failure to Apply Appropriate Accounting Principles (Continued)

Cause (Continued):

- For the reimbursements of TRS and THIS employee' contributions, the ROE No. 34 maintains a separate fund to account for the receipts which are recorded as revenues and disbursements which are recorded as expenses.

Recommendation:

The ROE No. 34 should establish procedures to ensure that transactions 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 fixed asset schedule should also be completed to include all capital lease items, and only capital assets above the capitalization threshold.

Management's Response:

The ROE No. 34 agrees with the finding and will post proposed adjusting entries to record transactions in accordance with GAAP. Adjustments will be made to the fixed assets/inventory schedule to allow appropriate identification of capital lease items and separation of items above and below \$5,000 capitalization threshold. This will also ensure accurate future calculations of fixed asset additions and depreciation expenses.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-3 - Controls for Reporting Accrued Compensated Absences

Criteria/Specific Requirement:

Governmental Accounting Standards Board (GASB) Statement No. 16, *Accounting for Compensated Absences*, requires that vacation leave, sick leave, and other compensated absences with similar characteristics be accrued as a liability as the benefits are earned by the employees if the leave is attributable to past service and it is probable that the employer will compensate the employees for the benefits through paid time off or some other means such as cash payments at termination or retirement (termination payments). Alternatively, the liability should be measured based on the sick leave and other compensated absences with similar characteristics accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments. When the liability is calculated, these accumulations should be reduced to the maximum amount allowed as termination payment. GASB Statement No. 16 requires the compensated absences liability generally to be measured using the pay or salary rates in effect at the balance sheet date. It also requires additional amounts to be accrued for certain salary-related payments associated with the payment of compensated absences, for example, the employer's share of social security and Medicare taxes.

Proper internal controls require management to establish appropriate procedures to ensure that accurate financial statements are presented in accordance with generally accepted accounting principles (GAAP).

Under terms of employment at ROE No. 34, employees are granted general and sick leave in varying amounts. Upon the termination of an employee eligible to use general leave, all accumulated leave credit will be paid as of the date of termination up to a maximum of 330 hours.

Condition:

The ROE No. 34 did not have adequate controls in place for identifying and reporting the Regional Office's liability for accrued compensated absences. During our review of the liability for accrued compensated absences for 25 employees, we noted that the ROE No. 34 did not recognize a compensated absences liability in its financial statements for fiscal years 2009 and 2010. Based on our computation, compensated absences liability for fiscal years 2009 and 2010 totaled \$140,319 and \$140,361, respectively. Auditors proposed adjusting entries on the government wide and fund financial statements to correct the compensated sick and vacation expenses and to restate beginning net assets.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-3 - Controls for Reporting Accrued Compensated Absences (Continued)

Condition (Continued):

In addition, the ROE No. 34's Education Services Division maintains a spreadsheet to monitor vacation leave hours earned by each eligible employee. Based on our review of vacation leave balances for five (5) employees, we noted the following errors:

- Hours earned by two (2) employees were overstated by a total of 19 hours due to an error in summarizing the numbers from the timecard.
- Hours earned by one (1) employee were overstated by a total of 29 hours due to an error in computation. The computed vacation hours exceeded the maximum of 330 hours.

Effect:

Failure to implement adequate internal control procedures for identifying, calculating and reporting the ROE No. 34's liability for accrued compensated absences may result in a material misstatement of the ROE No. 34's financial statements. This also could result in incomplete and inaccurate disclosure of compensated absences liability.

Cause:

According to ROE officials, the ROE No. 34 did not have personnel with adequate training and knowledge to comply with GASB Statement No. 16, *Accounting for Compensated Absences*.

Recommendation:

The ROE No. 34 should implement adequate internal controls to ensure that financial information is complete and accurate. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP.

Management's Response:

The ROE No. 34 agrees with the finding and will incorporate GASB Statement No. 16, *Accounting for Compensated Absences* into office processes and procedures. The ROE No. 34 will record proposed adjusting entries and calculate compensated absences liability for FY 2011 and future years.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

**FINDING NO. 10-4 - Inadequate Controls Over Purchased Services Expenditures
(Repeated from Finding Nos. 09-1 and 08-1)**

Criteria/Specific Requirement:

Good internal controls require that all contracts be executed prior to services being performed and payments being made to contractors. In addition, the Regional Office of Education No. 34 (ROE No. 34) is responsible for ensuring that contractors maintain documentation of the hours worked and services provided under the contract.

Condition:

During our review of expenditures, we noted that the contractual agreement for 1 of 11 (9%) contracts for the time period July 1, 2009 through June 30, 2010 was executed and signed on June 28, 2010. In addition, the ROE No. 34 did not maintain documentation to support the hours worked and services provided. The amount paid totaled \$35,721 and was paid from local funding. The contract was executed with the Assistant Regional Superintendent under a consultant agreement to act as the Executive Director for the ROE No. 34's blended component unit, Education Services Division (ESD). The ESD is responsible for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and federal grant supported programs and services in education. The ROE No. 34 is the administrative and fiscal agent for the ESD.

Effect:

Failure to execute contracts prior to when the services begin and not maintaining documentation of the hours worked and the services provided, may result in services being provided that are inconsistent with program goals and activities, inadequate protection of the Regional Office's interests, and unallowable costs charged to the program.

Cause:

According to ROE officials, the services and amount of the contractual services to be provided were established when the employee began working at the ROE No. 34. As a result, ROE No. 34 did not have a current written contract on file.

Recommendation:

The ROE No. 34 should establish procedures to ensure all program costs are sufficiently documented and adequately supported. All consultant agreements should be supported by a current written contract with detailed scope of services and rates of compensation. The ROE

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

**FINDING NO. 10-4 - Inadequate Controls Over Purchased Services Expenditures
(Repeated from Finding Nos. 09-1 and 08-1)**

Recommendation: (continued)

No. 34 should also maintain documentation to support hours worked and the services provided.

Management's Response:

The ROE No. 34 agrees with the finding. Corrective documents were created in June 2010 for FY 2009, FY 2010 and FY 2011 contracts. The ROE No. 34 will continue to follow established procedures to ensure program costs are sufficiently documented and adequately supported. All consultant agreements will be supported by a current written contract with detailed scope of services and rates of compensation.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures

Federal Program Name: Title I - School Improvement and Accountability
Project No: 2010-4331-SS
CFDA No.: 84.010A
Passed Through: Will County Regional Office of Education No. 56
Federal Agency: U.S. Department of Education

Federal Program Name: Title II - Teacher Quality Leadership Grant
Project No: 2010-4935-SS
CFDA No.: 84.367A
Passed Through: Will County Regional Office of Education No. 56
Federal Agency: U.S. Department of Education

Criteria/Specific Requirement:

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria, among other things, require the expenditures must be allocable, reasonable, and supported by adequate documentation.

Part 4 of the OMB Circular A-133 Compliance Supplement for the Department of Education prescribes that employee time and effort distribution records must be maintained to document the portion of time and effort dedicated to the single cost objective and each program or other cost objective supported by non-consolidated Federal funds or other revenue sources. Time-and-effort requirements vary under different circumstances:

1. Where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee and supervisory official having firsthand knowledge of the work performed by the employee. (OMB Circular A-87, Attachment B, paragraphs 8.h.(3))
2. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures (Continued)

Criteria/Specific Requirement (Continued):

documentation which meets the following standards unless another substitute system has been approved by the cognizant federal agency:

- a. They must reflect an after the fact distribution of the actual activity of each employee;
- b. They must account for the total activity for which each employee is compensated;
- c. They must be prepared at least monthly and must coincide with one or more pay periods;
- d. They must be signed by the employee; and
- e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes provided that:
 - The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

(OMB Circular A-87, Attachment B, paragraphs 8.h. (4), (5), and (6))

Condition:

During our review of payroll expenditures, we noted the following:

- Salaries and benefits totaling \$666,607 for nine (9) salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program.
- Three (3) employees who worked solely on Title I - School Improvement and Accountability grant, did not prepare the required semi-annual certification stating that they had worked full time on this program. Salaries and benefits for these employees totaled \$287,885.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures (Continued)

Questioned Costs:

Not determinable.

Context:

The salaries and benefits expenditures for the ROE No. 34 for FY 2010 totaled \$2,730,901, of which \$594,917 pertains to Title I - School Improvement and Accountability, and \$47,541 pertains to Title II - Teacher Quality - Leadership Grant.

Effect:

Failure to prepare time allocation sheets does not provide a sufficient basis for the allocation of actual payroll charges incurred by program, which may result in a program being over or under charged for salary and benefits. Also, noncompliance with the Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement may result in the federal funds being expended for unallowable purposes.

Cause:

The ROE No. 34 does not have established policies and procedures regarding salaries and benefits that incorporates the requirements of Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement and the Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. In addition, the Regional Office staff did not anticipate significant differences between the budgeted and actual time spent by program and therefore did not see the need to summarize time charges and re-allocate salary costs based on actual time spent.

Recommendation:

The ROE No. 34 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or a time and effort report by program. The ROE No. 34 should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part II: Financial Statement Findings (Continued)

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures (Continued)

Management's Response:

The ROE No. 34 agrees with the finding and will develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. The policies and procedures will include requiring staff involved in multiple programs to submit a time and effort report by program. The ROE No. 34 will also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged to budgeted allocation rates on a regular basis. Payroll charges by program will be based on the time devoted and identified specifically to the performance of those programs.

Since Fiscal Year 2011 is near the end, these corrective actions will be developed for full implementation in FY 2012. FY 2011 time and effort estimations will be based upon budget allocations as compared to completed employee time and effort reports used to calculate monthly cumulative pay entitlements.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part III: Federal Award Findings

Instances of Noncompliance

Finding No. 10-5 - Inadequate Documentation for Payroll Expenditures (finding details on pages 23-26).

Significant Deficiency

Finding No. 10-5 - Inadequate Documentation for Payroll Expenditures (finding details on pages 23-26).

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-1 - Controls Over Financial Statement Preparation

Condition:

The ROE No. 34 does not have sufficient internal controls over the financial reporting process. The ROE No. 34 maintains their accounting records on the cash basis of accounting. While the ROE No. 34 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statements misstatements and disclosure omissions in a timely manner.

- The ROE No. 34 did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable or deferred revenue. While the ROE No. 34 maintained records to support the balances of accounts receivable, accounts payable and deferred revenue, not all entries were made by the Regional Office to reconcile their grant activity, such as posting grants receivable and deferred revenue.
- The ROE No. 34's financial information required numerous adjusting entries to present the financial statements in accordance with GAAP. These included multiple adjusting entries from the prior year's audit that were not recorded in the general ledger. In addition, many of the fund balance accounts listed on the trial balance received from the Regional Office did not agree to the amounts reported in the prior year. The Regional Office made adjustments to the beginning fund balances, however, for financial statement preparation, the prior year ending balances were used as the beginning balances.
- Trial balance reports for 36 funds had positive or negative amounts, rather than being \$0. Also, trial balance reports for 10 funds had Reserve for Encumbrance accounts totaling \$66,232 as of June 30, 2010. The Reserve for Encumbrance was set up to keep track of various expenditures payable as of June 30.
- A bank account for the Regional Safe School Program fund with a bank statement balance totaling \$549,873 as of June 30, 2010 was not reconciled with the general ledger balance totaling \$149,091 resulting in a difference of \$400,782. Based on our review of transactions, the difference consisted of deposited but unrecorded receipts totaling \$720,309, unrecorded disbursements totaling \$20,281, and unrecorded FY 2009 audit adjustments that decreased the cash balance by \$299,246. Adjusting entries were subsequently proposed to record these transactions in the general ledger.
- Balances of income statement (nominal) accounts from the trial balance and general ledger for the Regional Safe School Program captured only the transactions from January 1, 2010 through June 30, 2010. Balances of the same nominal accounts from July 1, 2009 through December 31, 2009 were closed into the fund balance account. Auditors had to review the detail of cash receipts and disbursements for the July 1, 2009

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-1 - Controls Over Financial Statement Preparation (Continued)

Condition (Continued):

through December 31, 2009 time period in order to determine the proper account balances. In addition, account codes and descriptions used in the trial balance and general ledger for this program were not in accordance with the ROE Account Code Structure prescribed by the ROE Accounting Manual.

- Errors were noted during our review of individual account balances. For example, investments totaling \$24,714 were recorded as accounts receivable and \$71,115 due to other governmental units were recorded as accounts payable.

Plan:

The ROE No. 34 will implement preparation and/or review procedures to ensure that financial statements, including disclosures, are complete and accurate.

Procedures will include consolidation of the various ROE financial management systems and reporting procedures under a unified system.

Inputs and outputs from these revised and realigned procedures will be performed and/or overseen by an individual possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the ROE No. 34 activities and operations.

Anticipated Date of Completion:

Initial preparation and review of procedures: July 31, 2011

Consolidation of ROE financial systems and implementation of revised procedures: June 30, 2012

Name of Contact Persons:

Kay Klemens, Accountant and Gary Pickens, Assistant Regional Superintendent/Director of Educational Services

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-2 - Failure to Apply Appropriate Accounting Principles

Condition:

Lake County Regional Office of Education No. 34 (ROE No. 34) did not properly record several transactions and, as a result, did not properly apply the appropriate generally accepted accounting principles (GAAP).

- For FY 2010, payments on leases of certain equipment with lease terms equal to the estimated economic life of the leased property, were treated as operating leases and recorded as purchased services (\$48,499). These leases met the criteria for capital leases. As of June 30, 2010, the net book value of the leased equipment and the present value of the related leases payable were \$114,482 and \$111,829, respectively.
- The ROE No. 34 capitalizes items costing \$5,000 or more. The capitalized assets and related depreciation expense were recognized in the governmental and business-type activities of the government-wide Statement of Net Assets. Based on our review of the schedule of capitalized assets and related depreciation (schedule), the following were noted:
 - a. Items costing less than \$5,000 were included in the schedule,
 - b. Two of six capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations,
 - c. Four of six capital lease equipment items tested were not included in the schedule, and
 - d. Due to an inaccurate basis of calculating the depreciation expense, the computed net book value and depreciation expense was overstated by \$52,268 and understated by \$12,001, respectively.
- Interfund receipts and disbursements pertaining to reimbursements of TRS and THIS employee' contributions (\$181,106) were recorded as revenues and expenses instead of receivables and payables.

Auditors proposed adjusting entries to record the above transactions in accordance with GAAP.

Plan:

The fixed asset schedule will be completed to include all capital lease items, and only capital assets above the capitalization threshold.

The ROE No. 34 will establish procedures to ensure that transactions are properly accounted for and reported in accordance with generally accepted accounting principles.

Anticipated Date of Completion:

July 31, 2011

Name of Contact Person:

Kay Klemens, Accountant

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-3 - Controls for Reporting Accrued Compensated Absences

Condition:

The ROE No. 34 did not have adequate controls in place for identifying and reporting the Regional Office's liability for accrued compensated absences. During our review of the liability for accrued compensated absences for 25 employees, we noted that the ROE No. 34 did not recognize a compensated absences liability in its financial statements for fiscal years 2009 and 2010. Based on our computation, compensated absences liability for fiscal years 2009 and 2010 totaled \$140,319 and \$140,361, respectively. Auditors proposed adjusting entries on the government wide and fund financial statements to correct the compensated sick and vacation expenses and to restate beginning net assets.

In addition, the ROE No. 34's Education Services Division maintains a spreadsheet to monitor vacation leave hours earned by each eligible employee. Based on our review of vacation leave balances for five (5) employees, we noted the following errors:

- Hours earned by two (2) employees were overstated by a total of 19 hours due to an error in summarizing the numbers from the timecard.
- Hours earned by one (1) employee were overstated by a total of 29 hours due to an error in computation. The computed vacation hours exceeded the maximum of 330 hours.

Plan:

The ROE No. 34 will continue to calculate and document compensated absences liabilities pursuant to FY 2010 audit findings.

The ROE No. 34 will also establish a review procedure to ensure employees' calculated leave hour and vacation balances are correct.

Anticipated Date of Completion:

July 31, 2011

Name of Contact Person:

Kay Klemens, Accountant

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

**FINDING NO. 10-4 - Inadequate Controls Over Purchased Services Expenditures
(Repeated from Finding Nos. 09-1 and 08-1)**

Condition:

During our review of expenditures, we noted that the contractual agreement for 1 of 11 (9%) contracts for the time period July 1, 2009 through June 30, 2010 was executed and signed on June 28, 2010. In addition, the ROE No. 34 did not maintain documentation to support the hours worked and services provided. The amount paid totaled \$35,721 and was paid from local funding. The contract was executed with the Assistant Regional Superintendent under a consultant agreement to act as the Executive Director for the ROE No. 34's blended component unit, Education Services Division (ESD). The ESD is responsible for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and federal grant supported programs and services in education. The ROE No. 34 is the administrative and fiscal agent for the ESD.

Plan:

The ROE No. 34 will continue corrective actions initiated in June 2010 as a result of the FY 2009 audit that are designed to ensure that contractual agreements are initiated in a timely and appropriate manner.

Anticipated Date of Completion:

July 15, 2011 (for FY 2012 contracts)

Name of Contact Person:

Kay Klemens, Accountant

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures

Federal Program Name: Title I - School Improvement and Accountability
Project No: 2010-4331-SS
CFDA No.: 84.010A
Passed Through: Will County Regional Office of Education No. 56
Federal Agency: U.S. Department of Education

Federal Program Name: Title II - Teacher Quality Leadership Grant
Project No: 2010-4935-SS
CFDA No.: 84.367A
Passed Through: Will County Regional Office of Education No. 56
Federal Agency: U.S. Department of Education

Condition:

During our review of payroll expenditures, we noted the following:

- Salaries and benefits totaling \$666,607 for nine (9) salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program.
- Three (3) employees who worked solely on Title I - School Improvement and Accountability grant, did not prepare the required semi-annual certification stating that they had worked full time on this program. Salaries and benefits for these employees totaled \$287,885.

Plan:

The ROE No. 34 will develop and implement local policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. This includes semi-annual reporting of employees fully compensated by federal funds.

The ROE No. 34 will ensure staff involved in multiple programs submit time and effort reports by program.

Lastly, the ROE No. 34 will establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted allocation rates on a regular basis. Payroll charges by program will be identified specifically to the performance of those programs (Note: FY 2011 allocations will be completed via comparison of budget allocations to monthly employee time and effort summaries).

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
JUNE 30, 2010**

FINDING NO. 10-5 - Inadequate Documentation for Payroll Expenditures (Continued)

Anticipated Date of Completion:

July 31, 2011

Name of Contact Persons:

Kay Klemens, Accountant and Gary Pickens, Assistant Regional Superintendent/Director,
Educational Services

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2010**

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
09-1	Inadequate Controls Over Purchased Services Expenditures	Repeated

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010

The Lake County Regional Office of Education No. 34 (ROE No. 34) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2010 with comparative information for the year ended June 30, 2009. Readers are encouraged to consider the information in conjunction with the ROE No. 34's basic financial statements.

2010 Financial Highlights

- Within the Governmental Funds, the General Fund revenues increased by \$762,465 (98%) from \$777,073 in FY 2009 to \$1,539,538 in fiscal year 2010. General Fund expenditures increased by \$937,276 (133%) from \$702,616 in FY 2009 to \$1,639,892 in FY 2010.
- Within the Governmental Funds, the Special Revenue Fund revenues increased by \$162,142 (3%) from \$5,722,348 in FY 2009 to \$5,884,490 in FY 2010. The Special Revenue Fund expenditures increased by \$1,440,566 (27%) from \$5,406,746 in FY 2009 to \$6,847,312 in FY 2010.
- The Proprietary Fund revenues increased by \$32,059 (9%) from \$341,324 in FY 2009 to \$373,383 in FY 2010. The Proprietary Fund expenditures decreased by \$15,675 (4%) from \$406,069 in FY 2009 to \$390,394 in FY 2010.

Overview of the Financial Statements

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 ROE No. 34'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 ROE No. 34 as a whole and present an overall view of the ROE No. 34's finances.
- *Fund financial statements* illustrate how governmental services were financed in the short-term, as well as what remains for future spending. Fund financial statements report the ROE No. 34'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 essential to a full understanding of the data provided in the basic financial statements.
- *Required supplementary information* further explains and supports the financial statements, and other supplementary information includes combining financial statements and budgetary information for certain General Fund accounts, Education Fund accounts, and other non-major funds.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Reporting the Lake County's Regional Office as a Whole

It is important to note that the ROE No. 34 is reported together with the following component units: Educational Services Division, Positive Alternative Services for Students, Northern Illinois Reading Recovery Consortium, ROE Alternative Program, and Regional Board of School Trustees.

The Statement of Net Assets and the Statement of Activities

Government-wide Financial Statements

The Government-wide financial statements report information about the ROE No. 34 as a whole. The Statement of Net Assets includes all of the assets and liabilities. 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 34.

The Government-wide financial 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 Office's financial health or position.

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 health, 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 ROE No. 34'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 ROE No. 34 established other funds to control and manage money for particular purposes.

The Office has three kinds of funds:

- (1) Governmental funds account for those funds through which most governmental functions of the Office 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 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.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The governmental funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- (2) 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.
- (3) Fiduciary funds are used to account for assets held by the ROE No. 34 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 ROE No. 34. The net assets at the end of FY 2010 and FY 2009, as restated, totaled \$1,985,331 and \$2,483,167, respectively. The analysis that follows provides a summary of the ROE No. 34'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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
ASSETS						
Current assets	\$ 4,663,058	\$ 3,656,185	\$ 249,438	\$ (255,490)	\$ 4,912,496	\$ 3,400,695
Capital assets, net of depreciation	125,210	39,405	3,395	7,402	128,605	46,807
TOTAL ASSETS	4,788,268	3,695,590	252,833	(248,088)	5,041,101	3,447,502
LIABILITIES						
Current liabilities	2,275,617	802,461	527,221	11,096	2,802,838	813,557
Noncurrent liabilities	251,125	150,778	1,807	–	252,932	150,778
TOTAL LIABILITIES	2,526,742	953,239	529,028	11,096	3,055,770	964,335
NET ASSETS						
Invested in capital assets net of related debt	13,381	4,130	3,395	7,402	16,776	11,532
Restricted for teacher professional development	439,571	376,370	–	–	439,571	376,370
Unrestricted	1,808,574	2,361,851	(279,590)	(266,586)	1,528,984	2,095,265
TOTAL NET ASSETS	\$ 2,261,526	\$ 2,742,351	\$ (276,195)	\$ (259,184)	\$ 1,985,331	\$ 2,483,167

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Total assets increased by \$1,593,599 primarily due to the increase in both cash and cash equivalents and grant receivable from the State. Capital assets likewise increased due to the acquisition of new assets which were financed under capital leases. ROE No. 34's current liabilities increased by \$1,989,281 primarily due to the increase in accrued expenses and accounts payable to other governments. The increase in noncurrent liabilities was due to the \$70,154 net increase in capital lease obligations and \$32,000 increase in OPEB liabilities. The ROE No. 34's net assets decreased by \$497,836 (20%) from FY 2009. The decrease occurred primarily in the Education Funds. In addition, net assets related to the Teacher Institute Fund are considered restricted for teachers' professional development.

CHANGES IN NET ASSETS

The following analysis shows the changes in net assets for the years ended June 30, 2010 and 2009.

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 1,751,252	\$ 1,428,443	\$ 373,374	\$ 340,995	\$ 2,124,626	\$ 1,769,438
Operating grants and contributions	4,586,544	4,278,027	–	–	4,586,544	4,278,027
General revenues:						
State and local sources	397,032	467,638	–	–	397,032	467,638
Interest income	2,609	21,906	9	329	2,618	22,235
On-behalf payments	1,213,372	303,407	–	–	1,213,372	303,407
Total revenues	7,950,809	6,499,421	373,383	341,324	8,324,192	6,840,745
Expenses:						
Salaries	2,130,865	1,944,139	88,187	60,556	2,219,052	2,004,695
Benefits	600,036	582,912	48,605	24,954	648,641	607,866
Purchased services	1,475,038	858,912	197,637	269,977	1,672,675	1,128,889
Supplies and materials	109,096	152,156	48,933	30,181	158,029	182,337
Capital expenditures	27,337	47,676	1,596	13,008	28,933	60,684
Depreciation	34,002	36,127	4,007	4,600	38,009	40,727
Payments to other governmental units	2,777,778	2,299,440	–	–	2,777,778	2,299,440
Miscellaneous	64,110	29,776	1,429	2,793	65,539	32,569
On-behalf payments	1,213,372	303,407	–	–	1,213,372	303,407
Total expenses	8,431,634	6,254,545	390,394	406,069	8,822,028	6,660,614
Change in net assets	(480,825)	244,876	(17,011)	(64,745)	(497,836)	180,131
Net assets beginning, as restated	2,742,351	2,497,475	(259,184)	(194,439)	2,483,167	2,303,036
Net assets, ending	\$2,261,526	\$ 2,742,351	\$ (276,195)	\$ (259,184)	\$ 1,985,331	\$ 2,483,167

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Governmental Activities

In FY 2010, revenues and expenses for governmental activities increased by \$1,451,388 and \$2,177,089, respectively. The increase in revenues was primarily due to the additional on-behalf payments from the Lake County amounting to \$755,007 which was recognized in 2010. Operating grants likewise increased mainly due to the \$323,216 grant for the Gifted Education program. The higher expenditures in 2010 resulted from the additional on-behalf payments as well as from the increase in contract services and payments to other governments.

Business-Type Activities

In FY 2010, total revenues for business-type activities increased by \$32,059, while expenses decreased by \$15,675. Revenue from workshops increased by \$37,755 due to higher number of enrollees and workshops conducted in FY 2010. The decrease in proprietary fund expenses was primarily due to decrease in purchased services related to workshop activities.

Financial Analysis of the ROE No. 34 Funds

As previously noted, the ROE No. 34 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The ROE's Governmental Funds reported combined fund balances of \$1,886,907.

Governmental Fund Highlights

- State funding of Regional Offices of Education has been stable in comparison to the previous year.
- The State aid foundation level remained the same at \$6,119 in FY 2010.
- Certain State and federal grants allocated to the ROE No. 34 from other governmental agencies were reduced in FY 2010.

Proprietary Fund Highlights

Total proprietary fund net deficit decreased by \$47,734 (74%) from \$64,745 in FY 2009 to \$17,011 in FY 2010. The decrease in deficit is mainly due to higher revenue and lower expenditures in Education Services Division fund.

Fiduciary Fund Highlights

Transactions during FY 2010 represent mainly transfers in and out of funds for the Distributive Fund.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Budgetary Highlights

The ROE No. 34 annually adopts budgets for several funds. 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 ROE No. 34 and submitted to the granting agency for approval. Amendments must be submitted under guidelines established by the granting agency.

Capital Assets

ROE No. 34's capital assets include office equipment, computers, audio-visual equipment, and office furniture. The ROE No. 34 maintains an inventory of capital assets which have accumulated over time. For FY 2010, additions amounted to \$119,807 and retirements amounted to \$0. The depreciation expense for FY 2010 was \$38,009.

Economic Factors and Next Years' Budget

At the time these financial statements were prepared and audited, the ROE No. 34 was aware of several existing circumstances that could affect its financial condition in the future:

- The proposed State aid foundation level for FY 2011 remains the same at \$6,119 per student.
- County Board support for ROE No. 31 is expected to remain at FY10 funding level.
- Several federal grants are expected to be received in FY 2011 in the form of general State aid and competitive grants in an effort to reduce the impact of the State's current fiscal deficit on the school district operations.

Contacting the Regional Office's Financial Management

This financial report is designed to provide the ROE No. 34'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 ROE No. 34 at 800 Lancer Lane, Suite E-128, Grayslake, Illinois 60030.

BASIC FINANCIAL STATEMENTS

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF NET ASSETS
JUNE 30, 2010

EXHIBIT A

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,491,539	\$ 244,863	\$ 2,736,402
Investments	511,284	-	511,284
Accounts receivable	3,995	3,249	7,244
Due from other governments	1,656,240	1,326	1,657,566
Total current assets	<u>4,663,058</u>	<u>249,438</u>	<u>4,912,496</u>
Noncurrent assets			
Capital assets, net	125,210	3,395	128,605
TOTAL ASSETS	<u>4,788,268</u>	<u>252,833</u>	<u>5,041,101</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued expenses	642,386	511,310	1,153,696
Due to other governments	1,563,759	6,636	1,570,395
Deferred revenues	38,214	9,275	47,489
Leases payable	31,258	-	31,258
Total current liabilities	<u>2,275,617</u>	<u>527,221</u>	<u>2,802,838</u>
Noncurrent liabilities			
Leases payable	80,571	-	80,571
Accrued compensated absences	138,554	1,807	140,361
Net OPEB obligations	32,000	-	32,000
Total noncurrent liabilities	<u>251,125</u>	<u>1,807</u>	<u>252,932</u>
TOTAL LIABILITIES	<u>2,526,742</u>	<u>529,028</u>	<u>3,055,770</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,381	3,395	16,776
Restricted for teacher professional development	439,571	-	439,571
Unrestricted	1,808,574	(279,590)	1,528,984
TOTAL NET ASSETS	<u>\$ 2,261,526</u>	<u>\$ (276,195)</u>	<u>\$ 1,985,331</u>

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

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	\$ 2,130,865	\$ 493,306	\$ 1,291,974	\$ (345,585)	\$ -	\$ (345,585)
Benefits	600,036	131,142	343,463	(125,431)	-	(125,431)
Purchased services	1,475,038	358,380	938,596	(178,062)	-	(178,062)
Supplies and materials	109,096	25,768	67,487	(15,841)	-	(15,841)
Miscellaneous	64,110	16,356	42,836	(4,918)	-	(4,918)
Payments to other governments	2,777,778	710,887	1,861,821	(205,070)	-	(205,070)
Capital expenditures	27,337	15,413	40,367	28,443	-	28,443
Depreciation	34,002	-	-	(34,002)	-	(34,002)
Administrative						
On-behalf payments - State	458,365	-	-	(458,365)	-	(458,365)
On-behalf payments - local	755,007	-	-	(755,007)	-	(755,007)
Total governmental activities	8,431,634	1,751,252	4,586,544	(2,093,838)	-	(2,093,838)
Business-type activities:						
Professional development	390,394	373,374	-	-	(17,020)	(17,020)
Total business-type activities	390,394	373,374	-	-	(17,020)	(17,020)
Total primary government	\$ 8,822,028	\$ 2,124,626	\$ 4,586,544	(2,093,838)	(17,020)	(2,110,858)
General revenues						
Local sources:						
Intergovernmental				171,757	-	171,757
Fees for services				6,173	-	6,173
On-behalf payments - local				755,007	-	755,007
Interest income, net				2,609	9	2,618
State sources				219,102	-	219,102
On-behalf payments - State				458,365	-	458,365
Total general revenues				1,613,013	9	1,613,022
Change in net assets				(480,825)	(17,011)	(497,836)
Net assets - beginning, as restated				2,742,351	(259,184)	2,483,167
Net assets - ending				\$ 2,261,526	\$ (276,195)	\$ 1,985,331

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2010

EXHIBIT C

	General Fund		Education Fund		Educational Services Division		Institute Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
ASSETS									
Cash and cash equivalents	\$ 777,760	\$ 1,175,756	\$ 17,066	\$ 303,238	\$ 217,719	\$ 2,491,539			
Investments	-	350,000	-	135,358	25,926	511,284			
Accounts receivable	867	-	-	1,084	2,044	3,995			
Due from other funds	4,074	9,432	-	-	-	13,506			
Due from other governments	109,548	1,136,371	286,166	-	124,155	1,656,240			
TOTAL ASSETS	892,249	2,671,559	303,232	439,680	369,844	4,676,564			
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Accounts payable and accrued expenses	109,767	159,790	291,929	109	80,791	642,386			
Due to other governments	11,381	1,488,687	39,174	-	24,517	1,563,759			
Due to other funds	157	9,537	3,734	-	78	13,506			
Deferred revenues	111,246	418,686	-	-	40,074	570,006			
Total liabilities	232,551	2,076,700	334,837	109	145,460	2,789,657			
FUND BALANCES									
Unreserved, reported in:									
General fund	659,698	-	-	-	-	659,698			
Special revenue funds	-	594,859	(31,605)	439,571	224,384	1,227,209			
Total fund balances	659,698	594,859	(31,605)	439,571	224,384	1,886,907			
TOTAL LIABILITIES AND FUND BALANCES	\$ 892,249	\$ 2,671,559	\$ 303,232	\$ 439,680	\$ 369,844	\$ 4,676,564			

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

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

EXHIBIT D

Total fund balances - governmental funds		\$ 1,886,907
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.	\$ 125,210	
Because some revenues will not be collected for several months after the Regional Office fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds.	531,792	
Capital lease obligations are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(111,829)	
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(138,554)	
The OPEB obligation resulting from annual required contributions in excess of actual contributions are not due and payable in the current period and therefore, are not reported in the funds.	<u>(32,000)</u>	<u>374,619</u>
Net assets of governmental activities		<u>\$ 2,261,526</u>

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

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010**

EXHIBIT E

	Educational			Nonmajor Special		Total
	General Fund	Education Fund	Services Division	Institute Fund	Revenue Funds	
REVENUES						
Federal sources	-	\$ 422,566	\$ 1,012,122	-	-	\$ 1,434,688
State sources	146,070	2,495,473	10,184	-	187,440	2,839,167
Local sources:						
Intergovernmental	171,757	-	-	-	-	171,757
Fees for services	6,173	1,237,690	33,396	165,509	314,656	1,757,424
Interest income	2,166	510	-	4,157	787	7,620
On-behalf payments	1,213,372	-	-	-	-	1,213,372
Total revenues	1,539,538	4,156,239	1,055,702	169,666	502,883	7,424,028
EXPENDITURES						
Instructional services:						
Salaries	203,281	1,198,277	504,190	-	225,117	2,130,865
Benefits	57,366	294,028	173,439	-	44,968	569,801
Purchased services	70,347	904,447	260,521	12,288	227,435	1,475,038
Supplies and materials	8,408	33,615	41,672	1,238	24,163	109,096
Payments to other governments	-	2,601,745	88,387	79,451	8,195	2,777,778
On-behalf payments	1,213,372	-	-	-	-	1,213,372
Miscellaneous	200	33,685	-	10,820	19,405	64,110
Capital expenditures	86,918	56,408	-	2,668	1,150	147,144
Total expenditures	1,639,892	5,122,205	1,068,209	106,465	550,433	8,487,204
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(100,354)	(965,966)	(12,507)	63,201	(47,550)	(1,063,176)
OTHER FINANCING SOURCES (USES)						
Proceeds from long-term lease payable	97,295	22,512	-	-	-	119,807
Repayment of long-term lease payable	(37,022)	(6,231)	-	-	-	(43,253)
Interest expense	(4,878)	(133)	-	-	-	(5,011)
Total other financing sources (uses)	55,395	16,148	-	-	-	71,543
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES (USES) OVER EXPENDITURES	(44,959)	(949,818)	(12,507)	63,201	(47,550)	(991,633)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	704,657	1,544,677	(19,098)	376,370	271,934	2,878,540
FUND BALANCES (DEFICIT), END OF YEAR	\$ 659,698	\$ 594,859	\$ (31,605)	\$ 439,571	\$ 224,384	\$ 1,886,907

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

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**

EXHIBIT F

Net change in fund balances \$ (991,633)

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.

Capital outlay	\$ 119,807	
Depreciation expense	<u>(34,002)</u>	85,805

Because some revenues will not be collected for several months after
the Regional Office fiscal year ends, they are not considered “available”
revenues and are deferred in the governmental funds. 531,792

Some capital additions were financed through capital leases. In governmental
funds, a capital lease arrangement is considered a source of financing but in
the Statement of Net Assets, the obligation is reported as a liability. (119,807)

Repayment of long-term capital lease obligation is reported as an expenditure in
governmental funds, but the repayment reduces long-term liabilities in the
Statement of Net Assets. 43,253

Some expenses in the Statement of Activities do not require the use of current
financial resources and therefore, are not reported as expenditures in
governmental funds. These activities consist of:

Decrease in compensated absences	1,765	
Increase in OPEB expense	<u>(32,000)</u>	(30,235)

Change in net assets of governmental activities \$ (480,825)

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

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2010**

EXHIBIT G

	Business Type Activities - Enterprise Funds			Total
	Education Services Division	PASS (Positive Alternative Student Services)	Fingerprinting Assessment	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 161,837	\$ 3,308	\$ 79,718	\$ 244,863
Accounts receivable	3,249	-	-	3,249
Due from other governments	210	-	1,116	1,326
Total current assets	165,296	3,308	80,834	249,438
Noncurrent assets				
Capital assets, net	-	-	3,395	3,395
TOTAL ASSETS	165,296	3,308	84,229	252,833
LIABILITIES				
Accounts payable and accrued expenses	511,310	-	-	511,310
Due to other governments	6,636	-	-	6,636
Deferred revenues	9,275	-	-	9,275
Accrued compensated absences	1,807	-	-	1,807
TOTAL LIABILITIES	529,028	-	-	529,028
NET ASSETS				
Invested in capital assets	-	-	3,395	3,395
Unrestricted	(363,732)	3,308	80,834	(279,590)
TOTAL NET ASSETS	\$ (363,732)	\$ 3,308	\$ 84,229	\$ (276,195)

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

EXHIBIT H

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

	Business Type Activities - Enterprise Funds			Total
	Education Services Division	PASS (Positive Alternative Student Services)	Fingerprinting Assessment	
OPERATING REVENUES				
Fees for services	\$ 318,170	\$ 1,240	\$ 53,964	\$ 373,374
OPERATING EXPENSES				
Salaries	88,187	-	-	88,187
Benefits	48,605	-	-	48,605
Purchased services	153,189	1,240	43,208	197,637
Supplies and materials	48,537	-	396	48,933
Miscellaneous	1,271	-	158	1,429
Capital expenditures	-	-	1,596	1,596
Depreciation	-	-	4,007	4,007
Total operating expenses	339,789	1,240	49,365	390,394
OPERATING INCOME (LOSS)	(21,619)	-	4,599	(17,020)
NONOPERATING REVENUES				
Interest income	-	-	9	9
CHANGE IN NET ASSETS	(21,619)	-	4,608	(17,011)
NET ASSETS, BEGINNING OF YEAR	(342,113)	3,308	79,621	(259,184)
NET ASSETS, END OF YEAR	\$ (363,732)	\$ 3,308	\$ 84,229	\$ (276,195)

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT I

	Business Type Activities - Enterprise Funds			
	Education Services Division	PASS (Positive Alternative Student Services)	Fingerprinting Assessment	Total
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipts for workshops and services	\$ 337,330	\$ 1,240	\$ 53,964	\$ 392,534
Adjustment from (payments to) suppliers and providers of goods and services	308,738	(1,240)	(44,926)	262,572
Payments to employees	(134,985)	-	-	(134,985)
Net cash provided by operating activities	<u>511,083</u>	<u>-</u>	<u>9,038</u>	<u>520,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest income	-	-	9	9
Net cash provided in investing activities	<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	511,083	-	9,047	520,130
CASH AND CASH EQUIVALENTS (OVERDRAFTS), BEGINNING OF YEAR	<u>(349,246)</u>	<u>3,308</u>	<u>70,671</u>	<u>(275,267)</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 161,837</u>	<u>\$ 3,308</u>	<u>\$ 79,718</u>	<u>\$ 244,863</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (21,619)	\$ -	\$ 4,599	\$ (17,020)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	-	-	4,007	4,007
Effects of changes in assets and liabilities:				
Accounts receivable	14,980	-	-	14,980
Due from other governments	-	-	432	432
Accounts payable and accrued expenses	505,309	-	-	505,309
Due to other governments	6,426	-	-	6,426
Deferred revenue	4,180	-	-	4,180
Accrued compensated absences	1,807	-	-	1,807
Net cash provided by operating activities	<u>\$ 511,083</u>	<u>\$ -</u>	<u>\$ 9,038</u>	<u>\$ 520,121</u>

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

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2010**

EXHIBIT J

ASSETS

Cash and cash equivalents	<u>\$ 3,022</u>
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LIABILITIES

Distributive payable	<u>\$ 3,022</u>
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The notes to the financial statements are an integral part of this statement.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

A. Reporting Entity

The Lake County Regional Office of Education No. 34 (ROE No. 34) is an entity that is a result of an Educational Service Region becoming a Regional Office of Education as of August 7, 1995. The ROE No. 34 operates under the School Code (105 ILCS 5/3 and 5/3A). ROE No. 34 encompasses Lake County, Illinois. A Regional Superintendent of Schools serves as Chief Administrative Officer of ROE No. 34 and is elected to the position for a four year term pursuant to 105 ILCS 5/3 and 5/3A of the School Code.

The Regional 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 Illinois State Board of Education (ISBE)'s Policy Programs; encouraging camaraderie among teachers through the 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.

The financial statements of the ROE No. 34 have been prepared in conformity with the Generally Accepted Accounting Principles (GAAP) as applied to governmental units.

B. Scope of the Reporting Entity

The Office of the Regional Superintendent of Schools is elected by popular vote. By Illinois State Statute, occupancy, secretarial, and other costs incurred in maintaining the Office are paid by the counties involved, and the salaries of the Regional Superintendent and the Assistant Regional Superintendent are paid by the State of Illinois. The Regional Superintendent is responsible for the supervision and control of school districts in the ROE No. 34.

The ROE No. 34 has developed criteria to determine whether outside agencies with activities which benefit the citizens of ROE No. 34, including school districts which serve pupils in ROE No. 34, should be included within its financial reporting entity. The criteria include but are not limited to, whether ROE No. 34 exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), scope of public service, and special financing relationships.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Blended Component Units

The following component units are entities, which are legally separate from ROE No. 34, but are so intertwined with the ROE No. 34 that they are, in substance, the same as the ROE No. 34. They are reported as part of Lake ROE No. 34 and blended into the appropriate funds.

On August 8, 1995, ROE No. 34 assumed, pursuant to State law, the authority and responsibilities of Educational Services Center No. 2 (ESC No. 2) of Lake County. The former ESC No. 2 is now the Educational Services Division (ESD) of ROE No. 34 located in its Grayslake office. The ROE No. 34's Regional Superintendent of Schools is the administrative and fiscal agent for the ESD. The ESD is responsible, under the School Code, for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and Federal grant supported programs and services in education.

ROE No. 34 administers the Positive Alternative Services for Students program (PASS) from its Grayslake Office. The ROE No. 34's Regional Superintendent of Schools is the administrative and fiscal agent for Project PASS. PASS, also known as the Lake County Center for Dropout Prevention, was established in 1985 to provide educational services to chronic truants and potential dropouts. The primary goals of Project PASS are to reduce student truancy and to prevent students from dropping out of school. It provides counseling, tutoring, mentoring, attendance incentives and a variety of enrichment activities that draw on community resources. It also provides teacher technical support services that give emphasis to creative and instructional strategies to make learning more interesting and engaging.

ROE No. 34 administers the Northern Illinois Reading Recovery Consortium (Consortium) from its Grayslake Office. The ROE No. 34's Regional Superintendent of Schools is the administrative and fiscal agent for the Consortium and the Assistant Regional Superintendent of Schools is its Site Coordinator.

ROE No. 34 provides administrative support for the Regional Board of School Trustees (Board) from its Grayslake Office. The ROE No. 34's Regional Superintendent of Schools serves as Ex-Officio Secretary of the Board. The Board consists of seven members from different townships who are elected to six-year terms by the voters of Lake County. The Board has jurisdiction over all matters regarding school boundary changes pursuant to Article 7 of the School Code.

ROE No. 34 administers the ROE Alternative Program of Lake County per the School Code of Illinois 5/13A-6. This is cited as the Safe Schools Law.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

ROE No. 34 is not aware of any entity which would exercise such oversight as to result in it being considered a component unit of the entity.

C. New Accounting Pronouncements

During FY 2010, the ROE No. 34 implemented and adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB)* which addresses financial statement and disclosure requirements for reporting by administrators of OPEB plan assets or by employers that include OPEB plan assets as trust or agency funds in their financial reports. The OPEB costs and the related OPEB obligations are presented in the Statement of Net Assets and Statement of Activities. The required OPEB disclosures are also presented in Note 10 to the financial statements and in the Required Supplementary Information.

The ROE No. 34 also implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*; and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The adoption of these statements does not have a significant impact on the ROE No. 34's financial statements for the year ended June 30, 2010.

D. 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 non-fiduciary activities of the ROE No. 34. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between those activities of the ROE No. 34 that are governmental in nature and those that are considered business-type activities. *Governmental activities* normally are supported by operating grants and contributions, charges for services and intergovernmental revenues. *Business-type activities* normally are supported by amounts assessed or received from local sources for the ROE No. 34's programs.

The Statement of Net Assets presents the ROE No. 34's nonfiduciary assets and liabilities with the differences reported as net assets. Net assets of the ROE No. 34 are classified as follows:

Invested in Capital Assets, Net of Related Debt - consists of ROE No. 34's capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowing used to finance the purchase of those assets.

Restricted Net Assets - represent resources in which the ROE No. 34 is legally obligated to spend in accordance with restrictions imposed by enabling legislation.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Unrestricted Net Assets - represent resources used for transactions relating to the general operations of the ROE No. 34 and may be used at the discretion of management to meet expenses for any purpose.

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. 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.

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

The financial statements of the ROE No. 34 are prepared in accordance with generally accepted accounting principles (GAAP). The ROE No. 34 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*, as are the proprietary fund financial statements. 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 revenues are recognized 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*. Revenues are recognized when they are 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. The ROE No. 34 considers revenues as available if they are collected within 60 days after year-end. Revenues received more than 60 days after the end of the current period are deferred in the governmental fund financial statements, but are recognized as current revenues in the government-wide financial statements. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. In applying the susceptible to accrual concept to intergovernmental

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 GASB.

When both restricted and unrestricted resources are available for use, it is the ROE No. 34's policy to use restricted resources first, then unrestricted resources as they are needed.

The ROE No. 34 records on-behalf payments made by the State and Lake County as revenues and expenditures.

F. Fund Accounting

The accounts of the ROE No. 34 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 ROE No. 34 maintains individual funds as required by the State of Illinois. 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. The governmental funds include the following:

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

General Fund - Used to account for all financial resources except those required to be accounted for in another fund. The General Fund is reported as a major governmental fund in the financial statements. The following are the general funds:

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

Educational Services Division Local Operations - Used to account for monies received for, and payment of, expenditures relating to the operations of the Educational Services Division.

PASS (Positive Alternative Student Services) - Used to account for monies received from interest, donation, and various miscellaneous income. These funds are used to defray staff development, training and professional membership expenses.

Special Revenue Funds - Used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The ROE No. 34 reported the following special revenue funds as major governmental funds:

Education Fund - Used to account for the State and federal grants and contracts administered by the ROE No. 34. The education funds are as follows:

Title I - Reading First Part B SEA Funds - 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.

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 - Used to account for grant monies received for, and payment of, expenditures for regional learning academy supplements. This includes the State aid funded through the ARRA State Fiscal Stabilization Funds under the Education State Grants and Government Services programs.

Truants Alternative/Optional Education - Used to account for monies received from the ISBE to be used in the truant alternative program for Lake County students.

McKinney Education for Homeless Children - Used to account for grant monies received for, and payment of, expenditures associated with a federal

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
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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 ISBE.

Juvenile Detention Fund - Used to account for revenues and expenditures related to the operation of the educational program at the Lake County Juvenile Detention Center.

Teacher Mentoring Pilot - Used to account for grant money received and the expenditures incurred to support the statewide new teacher mentoring program that includes assigning a mentor teacher to each new teacher for a period of at least two years and providing professional development designed to ensure the growth of the new teachers' knowledge and skills.

Principal Mentoring Program - Used to account for monies from the Illinois Principals Association for expenditures incurred to ensure that every new principal in the region receives high-quality mentoring experience from trained mentors.

Gifted Education - Used to account for grant monies received for, and payments of, expenditures incurred to provide professional learning opportunities in the area of gifted education. A series of modules, each created for a specific purpose, was offered to assist educators in their efforts to support the social/emotional health and development of students of high potential, address their diverse needs, and facilitate at least a year's achievement of growth and development.

Teachers & Administrators Mentoring Program - Used to account for revenue and expenditures related to the programs to provide staff development sessions, mentor support, and material to teachers in their first and second years in the profession. This program is designed to provide continuous professional support as new teachers move through the certification process, from initial to standard.

Educational Services Division - Used to account for the revenues and expenditures of providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators.

Institute - Used to account 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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

purpose of defraying the expense of any general or special meeting of teachers or school personnel, which has been approved. All funds generated remain restricted until expended only on the aforementioned activities.

Nonmajor Special Revenue Funds - The ROE No. 34 reported the following special revenue funds as non-major governmental funds:

General Education Development (GED) - Used to account for the revenue and expenditures associated with the processing of applications for the high school level Test of General Educational Development and the issuance of diplomas upon successful completion of the examination. Statute requires excess funds accumulated for periods exceeding three years to be transferred into the Institute Fund.

Bus Driver Training - Used to account for the revenue received and expenses incurred in conducting initial and refresher training classes for school bus drivers.

Regional Board of School Trustees - Used to account for the revenues and expenditures of the Regional Board of Trustees. This Board consists of seven members from different townships who are elected to six-year terms by the voters of Lake County. The Board has jurisdiction over all matters regarding school boundary changes pursuant to Article 7 of the School Code.

Supervisory - Used to account for monies received from the State to pay for the supervision of school districts.

Reading Recovery Installation Fees - Used to account for monies received from Reading Recovery Consortium members and the interest earned on the funds.

Reading Improvement Block - Used to account for grant monies received for, and payment of, expenditures incurred to provide training for new Reading Recovery teachers and provide opportunities for ongoing professional development for both teachers and teacher-leaders.

Reading Recovery Operations - Used to account for monies received for, and payment of, expenditures in connection with books and materials for the reading recovery teachers and teacher leaders, supplies, travel expenses, meeting expenses, salary and benefits for teacher leaders, and required professional development.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Distributive Interest - Used to account for monies accumulated from interest earned on the general fund's checking account.

Learning Technology Center - Used to account for the revenues and expenditures of establishing a statewide support system for information, professional development, technical assistance, network design, technology planning, leadership, and information exchange.

PASS (Positive Alternative Student Services) - Used to account for the revenues and expenditures of reducing student truancy and the prevention of students from dropping out of school.

Pre-School Monitoring - Used to account for reimbursement of personnel who evaluate pre-schools that receive funds from the universal pre-school program initiated in 2007 by the Governor's office.

National Dropout Prevention Conference - Used to account for revenues and expenditures of coordinating conferences for the National Dropout Prevention Center.

Proprietary Fund Types

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

Education Services Division - Used to account for the fees received and expenditures incurred providing a variety of in service training workshops and conferences.

PASS (Positive Alternative Student Services) - Used to account for the fees received and expenditures incurred providing workshops and conferences to prevent students from dropping out of school.

Fingerprinting Assessment - Used to account 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.

Fiduciary Fund Type

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:

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Agency - Used to account for funds received from ISBE and disbursed as a result of the Regional Superintendent's responsibility to receive and distribute to the Funds of the ROE No. 34, monies due to them from general State aid, State categorical grants, federal grants, and various other sources.

G. 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 No. 34 receives value without directly giving value in return, include 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 No. 34 must provide local resources to be used for specific purpose; and expenditures requirements, in which the resources are provided to the ROE No. 34 on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must be available before it can be recognized.

H. Disposition of Distributive Fund Interest

ISBE funds received by the ROE No. 34 for the Distributive Fund accrue interest for the period of time between the receipt of funds and clearance of checks to recipients. Interest is distributed among the Funds of the ROE No. 34.

I. License and Permits

Teacher certification, license and permit revenues are recognized in the year for which the licenses and permits are issued.

J. Capital Assets

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

Capital assets are recorded at cost at the time of acquisition or fair value at the date of donation. The ROE No. 34 capitalizes items costing \$5,000 or more. Depreciation is

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

calculated on a straight-line basis over the estimated useful lives (five to seven years) of the respective assets.

K. Deferred Revenues

The ROE No. 34 reports unearned and 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.

L. Estimates

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

M. Cash and Investments

For purposes of the Statement of Cash Flows, the ROE No. 34 considers all cash and all highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

State regulations require that the ROE No. 34 deposit funds under its control into accounts insured by the federal government, secured by substantial collateral or into pooled investment trusts. All funds not needed for immediate disbursements are maintained in interest bearing accounts. Statutes authorize the ROE No. 34 to make deposits or invest in obligation of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Public Treasurer's Investment Pool.

N. Revenues 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.

O. Budgetary Data

The ROE No. 34 did not formally adopt a budget for the year ended June 30, 2010 and is not legally required to do so. The ISBE and other federal grantors require budgets for

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

certain State and Federal programs. These budgets were used to prepare Budgetary Comparison Schedules for the following programs:

General Fund

- ROE/ISC Operations

Special Revenue Funds

- Education Fund
 - Title I - Reading First Part B SEA Funds
 - Regional Safe Schools
 - Truants Alternative/Optional Education
 - Gifted Education
 - Teacher & Administrators Mentoring Program
- Nonmajor Special Revenue Funds
 - Reading Improvement Block
 - Learning Technology Center

NOTE 2 - CASH AND INVESTMENTS

Deposits

The ROE No. 34 utilizes several different bank accounts for its various activities. The carrying amount of such accounts is \$2,739,424 at June 30, 2010, while the bank balance was \$1,888,896. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2010. Of the total bank balance as of June 30, 2010, \$1,179,976 was secured by federal depository insurance and \$708,920 was collateralized by security pledged by the ROE No. 34's financial institution on behalf of the ROE No. 34.

Investments

The ROE No. 34's established investment policy follows the State of Illinois Public Funds Investment Act which authorizes the ROE No. 34 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.

As of June 30, 2010, the ROE No. 34 had investments with carrying and fair values as follows:

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Certificates of deposit	\$ 486,562	\$ 486,562
Illinois Funds money market fund	24,722	24,722
Total	<u>\$ 511,284</u>	<u>\$ 511,284</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The ROE No. 34 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The investment in the Illinois Funds Money Market Fund, created by the Illinois General Assembly, enables custodians of public funds an investment option with competitive rate of return on fully collateralized investments and immediate access to the funds. The investment policy of the Illinois Funds Money Market Fund states that, unless authorized specifically by the Treasurer, a minimum of 75% of its investment shall have less than one-year maturity and no investment shall exceed two years maturity. Maturities of certificates of deposits are within two years from the date of purchase.

Credit Risk

The ROE No. 34 is allowed to invest in securities as authorized by the State of Illinois Public Funds Investment Act (30 ILCS 235/2 and 6); and Section 8-7 of the School Code. The ROE No. 34 has no investment policy that would further limit its investment choices. As of June 30, 2010, the ROE No. 34's investment in the Illinois Funds Money Market Fund was rated AAAM by Standard & Poor's.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a financial institution, the ROE No. 34 will not be able to recover its investments or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2010, the ROE No. 34's investments are fully collateralized.

Concentration of Credit Risk

The ROE No. 34 places no limit on the amount invested or deposited to any particular bank. All of the ROE's certificates of deposit totaling \$486,562 are deposited to a local bank.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
GOVERNMENTAL FUNDS				
Equipment	\$ 210,096	\$ 119,807	\$ -	\$ 329,903
Less: accumulated depreciation	170,691	34,002	-	204,693
Capital assets, net	<u>\$ 39,405</u>	<u>\$ 85,805</u>	<u>\$ -</u>	<u>\$ 125,210</u>
	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
PROPRIETARY FUNDS				
Equipment	\$ 28,820	\$ -	\$ -	\$ 28,820
Building improvements	11,892	-	-	11,892
Total	40,712	-	-	40,712
Less: accumulated depreciation	33,310	4,007	-	37,317
Capital assets, net	<u>\$ 7,402</u>	<u>(\$ 4,007)</u>	<u>\$ -</u>	<u>\$ 3,395</u>

Depreciation expense for the year ended June 30, 2010 totaled \$38,009, of which \$34,002 and \$4,007 were charged to the instructional services function of the governmental funds and to the proprietary funds, respectively.

NOTE 4 - DUE FROM/TO OTHER GOVERNMENTS

The ROE No. 34's Special Revenue Fund and various grant programs have funds due from/to the following government agencies:

DUE FROM OTHER GOVERNMENTS	
Illinois State Board of Education	\$ 863,828
Local school districts	401,759
Will County ROE No. 56	285,117
Henderson/Mercer/Warren Counties ROE No. 27	39,324
Lake County	18,590
Other local governments	48,948
Total	<u>\$ 1,657,566</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
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DUE TO OTHER GOVERNMENTS

Special Education District of Lake County	\$ 994,932
County of Lake - Circuit Courts	221,919
Lake County Treasurer	107,326
College of Lake County	14,490
Teachers Retirement System/THIS	7,174
Local school districts	<u>224,554</u>
Total	<u><u>\$ 1,570,395</u></u>

NOTE 5 - INTERFUND TRANSACTIONS

(a) Due From (To) Other Funds

The following is a summary of amounts due from (to) other funds as of June 30, 2010:

Fund	Due From Other Funds	Due To Other Funds
General Fund - TRS/THIS Payments	\$ 4,074	\$ -
General Fund ESD - Local Operations	-	157
Education Fund - McKinney Education for Homeless Children	9,432	-
Education Fund - General State Aid	-	9,432
Education Fund - Truants Alternative/Optional Education	-	105
Educational Services Division - SOS Title I	-	3,734
Non Major Funds - Reading Recovery Operations	-	78
Total	<u><u>\$ 13,506</u></u>	<u><u>\$ 13,506</u></u>

(b) Transfers From (To) Other Funds

The composition of interfund transfers for the year ended June 30, 2010 is as follows:

Fund	Transfer-out	Transfer-in
General Fund ROE -ROE/ISC Operations	\$ 2,883	\$ -
General Fund ESD - Local Operations	-	2,883
Education Fund - McKinney Education for Homeless Children	-	35,669
Education Fund - General State Aid	459,480	-
Education Fund - Regional Safe School	-	423,811
Total	<u><u>\$ 462,363</u></u>	<u><u>\$ 462,363</u></u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 6 - COMPENSATED ABSENCES

Under terms of employment, employees are granted general and sick leave in varying amounts. Only benefits considered to be vested are disclosed in these statements.

All vested general and sick leave pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in government funds only if they have matured, for example, as a result of employee resignations and retirements, and are payable with expendable available resources.

Upon the termination of an employee eligible to use general leave, all accumulated leave credit will be paid as of the date of termination up to a maximum of 330 hours.

Eligible employees who terminate and are in good standing may receive payment for 50% of their accumulated sick leave bank in excess of 30 days to a maximum of 60 days. Reimbursements are paid at the employee's then current pay rate. Under certain conditions, a retiring, vested employee can receive up to a maximum of one year of pension service credit for accumulated, unused, unpaid sick leave.

Eligible employees with at least 30 unused sick leave days in their sick bank may elect to receive cash reimbursement for sick leave days that they accrued during the current fiscal year, less any sick leave days taken that year, at 50% value. This reimbursement option is only offered to employees once a year, usually at the end of the fiscal year. The ROE No. 34 records accrued sick leave for amounts payable to employees who elected to be paid for sick days that accumulated during the current year. Accrued sick leave reimbursement amounted to \$0 and \$ 2,701 as June 30, 2010 and June 30, 2009, respectively. The ROE No. 34 suspended the sick leave day reimbursement option in fiscal year 2010 as part of its cost-saving programs.

Compensated absences activity as of June 30, 2010 is as follows:

	Balance July 1, 2009 (As Restated)	Additions	Reductions	Balance June 30, 2010
Compensated absences	\$ 140,319	\$ 5,398	\$ 5,356	\$ 140,361

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 7 - CAPITAL AND OPERATING LEASES

ROE No. 34 has entered into lease agreements as lessee for financing the acquisition of computer equipment and copiers. These lease agreements qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the capital assets account.

The future minimum capital lease obligations and the net present value of these lease payments as of June 30, 2010, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2011	\$ 36,027
2012	28,545
2013	28,545
2014	24,918
2015	6,505
Total minimum lease payment	<u>124,540</u>
Less: amount representing interest	<u>12,711</u>
Present value of minimum lease payments	<u>\$ 111,829</u>

The ROE No. 34 is also committed under lease agreements for a building facility for its Safe Schools program located in Zion, IL and classroom space for its ESD (Educational Services Division) operations located in Grayslake, IL. The lease for the Safe School program requires annual lease payment of \$130,900, payable monthly, with an option for yearly renewal. Total lease expense for this facility for the year ended June 30, 2010 amounted to \$130,900.

The lease agreement for the ESD was for a period of five years beginning September 1, 2006 until August 30, 2011, with an option to renew for an additional five-year period ending August 30, 2016. The lease also provides for annual increases in future rental payments based on the CPI (consumer price index). Rental expense for the year ended June 30, 2010 was \$46,252. The remaining lease payments until August 30, 2011 under this agreement totaled \$55,219.

NOTE 8 - ON-BEHALF PAYMENTS

The salaries and Teachers Retirement System (TRS) contributions of the Regional Superintendent and Assistant Regional Superintendent of ROE No. 34 are paid by the State of Illinois, in accordance with applicable State of Illinois Law. A significant portion of the

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

operating expenditures of the ROE No. 34 are paid by Lake County, Illinois, in accordance with the statutes.

The breakdown of the State and County on-behalf payments for the year ended June 30, 2010 is as follows:

Regional Superintendent salary	\$ 100,762
Regional Superintendent benefits (includes State paid insurance)	19,998
Assistant Regional Superintendent salary	90,686
Assistant Regional Superintendent benefits (includes State paid insurance)	17,781
TRS pension contributions	221,191
THIS OPEB contributions	7,947
Salaries of office workers paid by the Lake County	545,861
Lake County's share in health insurance contributions	32,901
Lake County's share in retirement contributions	41,663
Other administrative expenses	134,582
Total	<u>\$ 1,213,372</u>

Salary and benefit data for the Regional Superintendent and the Assistant Regional Superintendent was calculated based on data provided by the Illinois State Board of Education.

NOTE 9 - RETIREMENT PLANS

Teachers' Retirement System of the State of Illinois (TRS)

The ROE No. 34 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 the primary responsibility for funding 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 for the year ended June 30, 2010, was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. The active member contribution rate was also 9.4 percent for the years ended June 30, 2009 and 2008.

The State of Illinois makes contributions directly to TRS on behalf of the ROE No. 34's TRS-covered employees.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

- **On-behalf Contributions to TRS.** The State of Illinois makes employer pension contributions on behalf of the ROE No. 34. For the year ended June 30, 2010, State of Illinois contributions were based on 23.38 percent of creditable earnings not paid from federal funds, and the ROE No. 34 recognized revenue and expenditures of \$221,191 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2009 and June 30, 2008, the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 17.08 percent (\$72,297) and 13.11 percent (\$51,956), respectively.

The ROE No. 34 makes other types of employer contributions directly to TRS.

- **2.2 Formula Contributions.** Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. This rate is specified by statute. Contributions for the year ended June 30, 2010 were \$4,377. Contributions for the years ended June 30, 2009, and June 30, 2008, were \$4,461 and \$3,835, respectively.
- **Federal and Trust Fund Contributions.** When TRS members are paid from federal and special trust funds administered by the ROE No. 34, there is a statutory requirement for the ROE No. 34 to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective for the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and special trust funds will be the same as the State contribution rate to TRS. For the year ended June 30, 2010, the employer pension contribution was 23.38 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2009 and 2008, the employer contribution was 17.08 and 13.11 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2010, salaries totaling \$355,607 were paid from federal and special trust funds that required employer contributions of \$83,141. For the years ended June 30, 2009 and June 30, 2008, required ROE No. 34 contributions were \$59,455 and \$35,712, respectively.
- **Early Retirement Option (ERO).** The ROE No. 34 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.

Public Act 94-0004 made changes in the ERO program that were in effect for all ERO retirements in fiscal years 2008 through 2010. The act increased member and employer contributions and eliminated the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service.

Under the current ERO, the maximum employer contribution is 117.5 percent and applies when the member is age 55 at retirement.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

For the year ended June 30, 2010, the ROE No. 34 paid \$0 to TRS for employer contributions under the ERO program. For the years ended June 30, 2009 and June 30, 2008, the ROE No. 34 paid \$46,718 and \$37,260 in employer ERO contributions, respectively.

- **Salary Increases Over 6 Percent and Excess Sick Leave.** Public Act 94-0004 added two new employer contributions to TRS.
 - If an employer grants salary increases over 6 percent and those salaries are used to calculate a retiree's final average salary, the employer makes a contribution to TRS. The contribution will cover the difference in actuarial cost of the benefit based on actual salary increases and the benefit based on salary increases of up to 6 percent. For the year ended June 30, 2010, the ROE No. 34 paid \$0 to TRS for employer contributions due on salary increases in excess of 6 percent. For the years ended June 30, 2009 and June 30, 2008, the ROE No. 34 paid \$0 and \$19,690, to TRS for employer contributions due on salary increases in excess of 6 percent, respectively.
 - If an employer grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the employer makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary used to calculate final average salary, and the TRS total normal cost rate (18.55 percent of salary during the year ended June 30, 2010). For the year ended June 30, 2010, the ROE No. 34 paid \$0 to TRS for sick leave days granted in excess of the normal annual allotment. For the years ended June 30, 2009 and June 30, 2008, the ROE No. 34 did not have any payments to TRS for sick leave days granted in excess of the normal annual allotment.

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, 2009. 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 (IMRF)

Employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The member rate is established by State Statute. The ROE No. 34 is required to contribute at an actuarially determined rate. The ROE No. 34 reimburses Lake County for the contributions made for the participating employees.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Retirement Fund Commitment

A number of employees of ROE No. 34 are paid by, and considered employees of, Lake County. As such, related retirement obligations associated with these employees are the responsibility of county government and are included in the total county on-behalf payments.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

Beginning in FY 2010, the ROE No. 34 is required to implement GASB Statement No. 45 for other postemployment benefits (OPEB), including health care coverage to eligible retirees, spouses and survivors. The ROE No. 34 implemented GASB Statement No. 45 prospectively. This new standard addresses how the reporting entity should account for and report its costs related to postemployment health care and other non-pension benefits.

(a) Retiree Medical Benefit Subsidy

The subsidy is an implied age related cost differential based upon the expected higher cost of coverage for retired employees versus the average cost for the entire group. Historically, the ROE No. 34's subsidy was funded on a pay-as-you-go basis. GASB Statement No. 45 requires that the ROE No. 34 recognize the cost of the retiree health subsidy and other postemployment benefits during the period of employee's active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to account for the total future cost of postemployment benefits and the financial impact on the ROE No. 34.

Plan Description. The ROE No. 34 provides postemployment medical benefits to eligible retirees, spouses and survivors through the Lake County Group Health Insurance Plan, a single-employer self-insured health care plan. The benefit levels, employee contributions, and employer contributions are governed and can be amended by the Lake County Board.

Benefits Provided. Employees who terminate after meeting the age and service requirements for retirement are eligible to continue their medical care plan coverage with the Lake County by paying the monthly premium rate. The benefit levels are the same as those afforded to active employees. The benefits include general outpatient and inpatient medical services and prescriptions. Because the actuarial cost of health benefits for retirees exceeds the average amount paid by retirees, the additional cost is paid by the Lake County and is the basis for the OPEB obligation accounted for under GASB Statement No. 45.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Membership. At June 30, 2010, membership consisted of:

Active Participants	32
Retired Participant	1
Total	33

Funding Policy. GASB Statement No. 45 requires recognition of the current expense of OPEB based on each governing body’s annual required contribution, but does not require funding of the related liability. As of June 30, 2010, the Lake County has chosen not to fund the liability.

Annual OPEB Cost and Net OPEB Obligation. The ROE No. 34’s annual OPEB cost is calculated based on the annual required contribution (ARC). The ARC represents the normal cost each year and an amount to amortize the unfunded actuarial liability over a period of thirty years.

Trend Data. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress is presented as required supplementary information following the notes to the financial statements.

Components of Net OPEB Obligation and Expense

Item	Amount as of June 30, 2010
Annual Required Contribution	\$ 32,000
Contributions made	—
Increase in net OPEB obligation	32,000
Net OPEB obligation - beginning of year	—
Net OPEB obligation - end of year	\$ 32,000

Schedule of Contributions, OPEB Costs and Net Obligations

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 32,000	0%	\$ 32,000

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Funded Status and Funding Progress. As of June 30, 2010, the actuarial accrued liability for benefits was \$271,000. The covered payroll was approximately \$1,663,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 16.3%.

Actuarial Method and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan understood by the employer and plan members) and include the benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members.

In the actuarial valuation for the fiscal year ended June 30, 2010, the entry age normal cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9.0% initially, reduced to an ultimate rate of 5.0% after eight years. The Unfunded Accrued Actuarial Liability is being amortized as a level percentage of pay over 30 years. A discount (interest) rate of 4.0% was used as well as a salary progression rate of 3.0% per year.

Schedule of Funded Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$ 271,000
Actuarial Value of Assets	—
Unfunded Actuarial Accrued Liability (UAAL)	\$ 271,000
Funded Ratio	0%
Covered Payroll (Active Plan Members)	\$ 1,663,000
UAAL as a % of Covered Payroll	16.3 %

(b) Teacher Health Insurance Security Fund

The ROE No. 34 participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multiple-employer defined benefit postemployment healthcare plan that was established by the Illinois legislature for the benefit of Illinois public school teachers employed outside the City of Chicago. The THIS Fund provides medical, prescription, and behavioral health benefits, but does not provide vision, dental or life insurance benefits to annuitants of the Teachers' Retirement System (TRS). Annuitants may participate in the State administered participating provider option plan or choose from several managed care options.

The State Employees Group Insurance Act of 1971 (5 ILCS 375) outlines the benefit provisions of THIS Fund and amendments to the plan can be made only by legislative action with the Governor's approval. The Illinois Department of Healthcare and Family Services (HFS) and the Illinois Department of Central Management Services (CMS)

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

administer the plan with the cooperation of TRS. The director of HFS determines the rates and premiums for annuitants and dependent beneficiaries and establishes the cost-sharing parameters. Section 6.6 of the State Employees Group Insurance Act of 1971 requires all active contributors to the TRS who are not employees of the State make a contribution to THIS.

The percentage of employer required contributions in the future will be determined by the director of HFS and will not exceed 105 percent of the percentage of salary actually required to be paid in the previous fiscal year.

- **On behalf contributions to THIS Fund.** The State of Illinois makes employer retiree health insurance contributions on behalf of the ROE No. 34. State contributions are intended to match contributions to THIS Fund from active members which were 0.84 percent of pay during the year ended June 30, 2010. The State of Illinois contributions were \$7,947, and the ROE No. 34 recognized revenue and expenditures of this amount during the year. Had the ROE No. 34 recognized revenue and expenditures for State contributions intended to match active member contributions during the years ended June 30, 2009 and June 30, 2008, under the current standards, the contribution match would have been 0.84 percent of pay or \$5,164 and \$5,017, respectively.
- **Employer contributions to THIS Fund.** The ROE No. 34 also makes contributions to THIS Fund. The ROE No. 34's THIS Fund contribution was 0.63 percent during the years ended June 30, 2010, June 30, 2009, and June 30, 2008. For the year ended June 30, 2010, the ROE No. 34 paid \$4,754 to the THIS Fund. For the years ended June 30, 2009 and June 30, 2008, the ROE No. 34 paid \$2,667 and \$2,497 to the THIS Fund, respectively, which was 100 percent of the required contribution.

The publicly available financial report of the THIS Fund may be obtained by writing to the Department of Healthcare and Family Services, 201 S. Grand Avenue, Springfield, IL 62763-3838.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE 11 - DEFICIT FUND BALANCES

The following Education, Governmental, Nonmajor Special Revenue, and Proprietary Funds have deficit fund balances as of June 30, 2010:

Fund	Amount
General Fund:	
ROE/ISC Operations	\$ 72,489
Education Fund:	
Regional Safe Schools	270,170
Truant Alternative	43,381
Nonmajor Special Revenue Fund:	
Reading Improvement Block	9,108
Proprietary Fund:	
Education Services Division	363,732
Total Deficit Fund Balances	\$ 758,880

Above deficit fund balances are expected to be reversed in the next fiscal year through payments from the State, receipts from local sources and interest income. The deficit balances are due to the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which require that grant revenue can only be recognized when collected during the fiscal year or collected soon after the end of the fiscal year to be available to pay the liabilities of current fiscal period.

NOTE 12 - RESTATEMENT

The Lake County Regional Office of Education No. 34's net assets as of June 30, 2009 have been restated for compensated absences liability which was not reported in prior years.

	Governmental Activities Fund
Net assets June 30, 2009 as previously reported	\$ 2,882,670
Effect of unrecorded accrued compensated absences	140,319
Net assets June 30, 2009, as restated	\$ 2,742,351

**REQUIRED SUPPLEMENTARY INFORMATION
(Other Than Management's Discussion and Analysis)**

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2010**

**OTHER POSTEMPLOYMENT BENEFITS -
 SCHEDULE OF FUNDING PROGRESS**

Reporting 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)
June 30, 2010	\$0	\$271,000	\$271,000	0%	\$1,663,000	16.3%

**OTHER POSTEMPLOYMENT BENEFITS PLAN -
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Fiscal Year Ended	Employer Contributions	Annual Required Contributions (ARC)	Percentage Contributed
June 30, 2010	\$0	\$32,000	0%

SUPPLEMENTARY INFORMATION

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GENERAL FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2010

SCHEDULE 1

	ROE/ISC Operations	Educational Services Division Local Operations	PASS (Positive Alternative Student Services)	Total
ASSETS				
Cash and cash equivalents	\$ -	\$ 688,316	\$ 89,444	\$ 777,760
Accounts receivable	-	867	-	867
Due from other funds	4,074	-	-	4,074
Due from other governments	109,548	-	-	109,548
TOTAL ASSETS	113,622	689,183	89,444	892,249
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	105,906	3,390	471	109,767
Due to other governments	7,173	4,208	-	11,381
Due to other funds	-	157	-	157
Deferred revenues	73,032	38,214	-	111,246
Total liabilities	186,111	45,969	471	232,551
FUND BALANCES (DEFICIT)				
Unreserved	(72,489)	643,214	88,973	659,698
TOTAL LIABILITIES AND FUND BALANCES	\$ 113,622	\$ 689,183	\$ 89,444	\$ 892,249

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GENERAL FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE 2

	ROE/ISC Operations	Educational Services Division Local Operations	PASS (Positive Alternative Student Services)	Total
REVENUES				
State sources	\$ 146,070	\$ -	\$ -	\$ 146,070
Local sources:				
Intergovernmental	-	171,757	-	171,757
Fees for services	-	100	6,073	6,173
Interest	-	942	1,224	2,166
On-behalf payments	1,213,372	-	-	1,213,372
Total revenues	1,359,442	172,799	7,297	1,539,538
EXPENDITURES				
Salaries	146,508	50,773	6,000	203,281
Benefits	18,065	31,774	7,527	57,366
Purchased services	58,671	5,919	5,757	70,347
Supplies and materials	3,529	3,085	1,794	8,408
Miscellaneous	-	200	-	200
On-behalf payments	1,213,372	-	-	1,213,372
Capital expenditures	-	86,918	-	86,918
Total expenditures	1,440,145	178,669	21,078	1,639,892
DEFICIENCY OF REVENUES OVER EXPENDITURES	(80,703)	(5,870)	(13,781)	(100,354)
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	(2,883)	2,883	-	-
Proceeds from long-term lease payable	12,150	85,145	-	97,295
Repayment of long-term lease payable	(2,156)	(34,866)	-	(37,022)
Interest expense	(273)	(4,605)	-	(4,878)
Total other financing sources	6,838	48,557	-	55,395
NET CHANGE IN FUND BALANCES	(73,865)	42,687	(13,781)	(44,959)
FUND BALANCES, BEGINNING OF YEAR	1,376	600,527	102,754	704,657
FUND BALANCES (DEFICIT), END OF YEAR	\$ (72,489)	\$ 643,214	\$ 88,973	\$ 659,698

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
GENERAL FUND ACCOUNTS
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE 3

	ROE/ISC Operations		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
State sources	\$ 219,102	\$ 146,070	\$ (73,032)
On-behalf payments	-	1,213,372	1,213,372
Total revenues	<u>219,102</u>	<u>1,359,442</u>	<u>1,140,340</u>
EXPENDITURES			
Salaries	147,135	146,508	627
Benefits	16,981	18,065	(1,084)
Purchased services	49,986	58,671	(8,685)
Supplies and materials	3,000	3,529	(529)
On-behalf payments	-	1,213,372	(1,213,372)
Capital expenditures	2,000	-	2,000
Total expenditures	<u>219,102</u>	<u>1,440,145</u>	<u>(1,221,043)</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>(80,703)</u>	<u>\$ (80,703)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out		(2,883)	
Proceeds from long-term lease payable		12,150	
Repayment of long-term lease payable		(2,156)	
Interest expense		(273)	
Total other financing uses		<u>6,838</u>	
NET CHANGE IN FUND BALANCE		(73,865)	
FUND BALANCE, BEGINNING OF YEAR		<u>1,376</u>	
FUND BALANCE (DEFICIT), END OF YEAR		<u>\$ (72,489)</u>	

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

SCHEDULE 4

EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2010

	Title I - Reading First Part B SEA Funds	Regional Safe Schools	General State Aid	Truants Alternative/ Optional Education	McKinney Education for Homeless Children
ASSETS					
Cash and cash equivalents	\$ 664	\$ 549,874	\$ 149,194	\$ -	\$ 1,517
Investments	-	-	350,000	-	-
Due from other funds	-	-	-	-	9,432
Due from other governments	34,047	524,664	-	72,299	1,200
TOTAL ASSETS	34,711	1,074,538	499,194	72,299	12,149
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	34,047	-	-	54,591	-
Due to other governments	-	994,932	17,413	17,603	12,149
Due to other funds	-	-	9,432	105	-
Deferred revenues	-	349,776	-	43,381	-
Total liabilities	34,047	1,344,708	26,845	115,680	12,149
FUND BALANCES (DEFICIT)					
Unreserved	664	(270,170)	472,349	(43,381)	-
TOTAL LIABILITIES AND FUND BALANCES	\$ 34,711	\$ 1,074,538	\$ 499,194	\$ 72,299	\$ 12,149

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

EDUCATION FUND

COMBINING SCHEDULE OF ACCOUNTS

JUNE 30, 2010

SCHEDULE 4
(CONTINUED)

	Juvenile Detention Fund	Teacher Mentoring Pilot	Principal Mentoring Program	Gifted Education	Teacher & Administrators Mentoring Program	Total
ASSETS						
Cash and cash equivalents	\$ 247,046	\$ -	638	\$ 224,671	\$ 2,152	\$ 1,175,756
Investments	-	-	-	-	-	350,000
Due from other funds	-	-	-	-	-	9,432
Due from other governments	396,882	-	46,750	-	60,529	1,136,371
TOTAL ASSETS	643,928	-	47,388	224,671	62,681	2,671,559

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued expenses	-	-	34,000	-	37,152	159,790
Due to other governments	221,919	-	-	224,671	-	1,488,687
Due to other funds	-	-	-	-	-	9,537
Deferred revenues	-	-	-	-	25,529	418,686
Total liabilities	221,919	-	34,000	224,671	62,681	2,076,700

FUND BALANCES (DEFICIT)

Unreserved	422,009	-	13,388	-	-	594,859
TOTAL LIABILITIES AND FUND BALANCES	\$ 643,928	\$ -	\$ 47,388	\$ 224,671	\$ 62,681	\$ 2,671,559

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
EDUCATION FUND ACCOUNTS

SCHEDULE 5

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010

	Title I -					McKinney
	Reading First					Education
	Part B					for Homeless
	SEA Funds	Regional Safe Schools	General State Aid	Truants Alternative/Optional Education	Children	
REVENUES						
Federal sources	\$ 93,272	\$ -	\$ 275,344	\$ -	\$ -	\$ 53,950
State sources	-	699,496	1,239,047	101,213	-	-
Local sources:						
Fees for services	-	10,076	49,242	-	-	-
Other	-	-	-	-	-	-
Interest	-	416	83	-	-	-
Total revenues	93,272	709,988	1,563,716	101,213	-	53,950
EXPENDITURES						
Salaries	-	-	378,150	94,205	31,951	
Benefits	-	-	96,762	21,196	27,533	
Purchased services	93,272	399,738	25,802	28,683	17,935	
Supplies and materials	-	-	3,449	510	4,868	
Miscellaneous	-	-	24,553	-	2,500	
Payment to other governments	-	1,354,334	939,400	-	-	
Capital expenditures	-	-	30,408	-	-	
Total expenditures	93,272	1,754,072	1,498,524	144,594	84,787	
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(1,044,084)	65,192	(43,381)	(30,837)	
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	-	423,811	(459,480)	-	35,669	
Proceeds from long-term lease payable	-	-	22,512	-	-	
Repayment of long-term lease payable	-	-	(6,231)	-	-	
Interest expense	-	-	(133)	-	-	
Total other financing sources (uses)	-	423,811	(443,332)	-	35,669	
NET CHANGE IN FUND BALANCES	-	(620,273)	(378,140)	(43,381)	4,832	
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	664	350,103	850,489	-	(4,832)	
FUND BALANCES (DEFICIT), END OF YEAR	\$ 664	\$ (270,170)	\$ 472,349	\$ (43,381)	\$ -	

**SCHEDULE 5
(CONTINUED)**

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2010**

	Juvenile Detention Fund	Teacher Mentoring Pilot	Principal Mentoring Program	Gifted Education	Teacher & Administrators Mentoring Program	Total
REVENUES						
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 422,566
State sources	-	-	-	323,216	132,501	2,495,473
Local sources:						
Fees for services	1,125,622	-	52,750	-	-	1,237,690
Other	-	-	-	-	-	-
Interest	11	-	-	-	-	510
Total revenues	1,125,633	-	52,750	323,216	132,501	4,156,239
EXPENDITURES						
Salaries	641,345	-	-	12,604	40,022	1,198,277
Benefits	144,981	-	-	3,556	-	294,028
Purchased services	225,408	132	44,362	49,340	19,775	904,447
Supplies and materials	586	124	1,669	11,775	10,634	33,615
Miscellaneous	6,632	-	-	-	-	33,685
Payment to other governments	-	-	-	245,941	62,070	2,601,745
Capital expenditures	26,000	-	-	-	-	56,408
Total expenditures	1,044,952	256	46,031	323,216	132,501	5,122,205
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	80,681	(256)	6,719	-	-	(965,966)
OTHER FINANCING SOURCES (USES)						
Transfers in (out)	-	-	-	-	-	-
Proceeds from long-term lease payable	-	-	-	-	-	22,512
Repayment of long-term lease payable	-	-	-	-	-	(6,231)
Interest expense	-	-	-	-	-	(133)
Total other financing sources (uses)	-	-	-	-	-	16,148
NET CHANGE IN FUND BALANCES	80,681	(256)	6,719	-	-	(949,818)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	341,328	256	6,669	-	-	1,544,677
FUND BALANCES (DEFICIT), END OF YEAR	\$ 422,009	\$ -	\$ 13,388	\$ -	\$ -	\$ 594,859

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 6

	Title I - Reading First Part B SEA Funds			Regional Safe Schools		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Federal sources	\$ 177,675	\$ 93,272	\$ (84,403)	\$ -	\$ -	\$ -
State sources	-	-	-	1,049,330	699,496	(349,834)
Local sources:						
Fees for services	-	-	-	-	10,076	10,076
Interest	-	-	-	-	416	416
Total revenues	177,675	93,272	(84,403)	1,049,330	709,988	(339,342)
EXPENDITURES						
Salaries	-	-	-	-	-	-
Benefits	-	-	-	-	-	-
Purchased services	71,086	93,272	(22,186)	1,049,330	399,738	649,592
Supplies and materials	106,589	-	106,589	-	-	-
Payments to other governments	-	-	-	-	1,354,334	(1,354,334)
Total expenditures	177,675	93,272	84,403	1,049,330	1,754,072	(704,742)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ (1,044,084)	\$ (1,044,084)
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	423,811	423,811
NET CHANGE IN FUND BALANCES						
					(620,273)	(620,273)
FUND BALANCES, BEGINNING OF YEAR		664			350,103	350,103
FUND BALANCES (DEFICIT), END OF YEAR	\$ 664	\$ 664		\$ -	\$ (270,170)	\$ (270,170)

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 6
 (CONTINUED)

	Truants Alternative/Optional Education			Gifted Education		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	144,594	101,213	(43,381)	323,216	323,216	-
Local sources:						
Fees for services	-	-	-	-	-	-
Interest	-	-	-	-	-	-
Total revenues	144,594	101,213	(43,381)	323,216	323,216	-
EXPENDITURES						
Salaries	109,326	94,205	15,121	11,604	12,604	(1,000)
Benefits	21,822	21,196	626	4,556	3,556	1,000
Purchased services	12,501	28,683	(16,182)	58,376	49,340	9,036
Supplies and materials	945	510	435	25,700	11,775	13,925
Payments to other governments	-	-	-	222,980	245,941	(22,961)
Total expenditures	144,594	144,594	-	323,216	323,216	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	(43,381)	\$ (43,381)	\$ -	\$ -	\$ -
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	-	-
NET CHANGE IN FUND BALANCES		(43,381)				
FUND BALANCES, BEGINNING OF YEAR						
FUND BALANCES (DEFICIT), END OF YEAR	\$ -	(43,381)		\$ -		

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 6
 (CONTINUED)

	Teacher & Administrators Mentoring Program			Total		
	Budget	Actual	Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Federal sources	\$ -	\$ -	\$ -	\$ 177,675	\$ 93,272	\$ (84,403)
State sources	88,452	132,501	44,049	1,605,592	1,256,426	(349,166)
Local sources:						
Fees for services	-	-	-	-	10,076	10,076
Interest	-	-	-	-	416	416
Total revenues	88,452	132,501	44,049	1,783,267	1,360,190	(423,077)
EXPENDITURES						
Salaries	19,622	40,022	(20,400)	140,552	146,831	(6,279)
Benefits	-	-	-	26,378	24,752	1,626
Purchased services	67,830	19,775	48,055	1,259,123	590,808	668,315
Supplies and materials	1,000	10,634	(9,634)	134,234	22,919	111,315
Payments to other governments	-	62,070	(62,070)	222,980	1,662,345	(1,439,365)
Total expenditures	88,452	132,501	(44,049)	1,783,267	2,447,655	(664,388)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -	\$ -	\$ (1,087,465)	\$ (1,087,465)
OTHER FINANCING SOURCES						
Transfers in	-	-	-	-	423,811	423,811
NET CHANGE IN FUND BALANCES						
					(663,654)	(663,654)
FUND BALANCES, BEGINNING OF YEAR					350,767	350,767
FUND BALANCES (DEFICIT), END OF YEAR					\$ (312,887)	\$ (312,887)

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2010

SCHEDULE 7

	General Education Development	Bus Driver Training	Regional Board of School Trustees	Supervisory
ASSETS				
Cash and cash equivalents	\$ 28,035	\$ 16,051	\$ 3,549	\$ 19
Investments	-	-	-	-
Accounts receivable	-	-	-	-
Due from other governments	18,590	-	-	-
TOTAL ASSETS	46,625	16,051	3,549	19
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	-	-	-	-
Due to other funds	-	-	-	-
Due to other governments	15,390	-	-	-
Deferred revenues	-	-	-	-
Total liabilities	15,390	-	-	-
FUND BALANCES				
Unreserved	31,235	16,051	3,549	19
TOTAL LIABILITIES AND FUND BALANCES	\$ 46,625	\$ 16,051	\$ 3,549	\$ 19

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2010

SCHEDULE 7
 (CONTINUED)

	Reading Recovery Installation Fees	Reading Improvement Block	Reading Recovery Operations	Distributive Interest
ASSETS				
Cash and cash equivalents	\$ 79,610	\$ -	\$ 33,974	\$ 14,995
Investments	-	-	-	-
Accounts receivable	-	-	61	-
Due from other governments	-	13,665	3,500	-
TOTAL ASSETS	79,610	13,665	37,535	14,995
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	-	13,665	-	900
Due to other funds	-	-	78	-
Due to other governments	-	-	7,950	-
Deferred revenues	-	9,108	-	-
Total liabilities	-	22,773	8,028	900
FUND BALANCES				
Unreserved	79,610	(9,108)	29,507	14,095
TOTAL LIABILITIES AND FUND BALANCES	\$ 79,610	\$ 13,665	\$ 37,535	\$ 14,995

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2010

SCHEDULE 7
(CONTINUED)

	Learning Technology Center	PASS (Positive Alternative Student Services)	Pre-School Monitoring	National Dropout Prevention Conference	Total
ASSETS					
Cash and cash equivalents	\$ -	\$ 32,986	\$ -	\$ 8,500	\$ 217,719
Investments	-	25,926	-	-	25,926
Accounts receivable	-	1,983	-	-	2,044
Due from other governments	49,076	-	39,324	-	124,155
TOTAL ASSETS	49,076	60,895	39,324	8,500	369,844
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued expenses	18,110	9,016	39,100	-	80,791
Due to other funds	-	-	-	-	78
Due to other governments	-	1,177	-	-	24,517
Deferred revenues	30,966	-	-	-	40,074
Total liabilities	49,076	10,193	39,100	-	145,460
FUND BALANCES					
Unreserved	-	50,702	224	8,500	224,384
TOTAL LIABILITIES AND FUND BALANCES	\$ 49,076	\$ 60,895	\$ 39,324	\$ 8,500	\$ 369,844

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 8

	General Education Development	Bus Driver Training	Regional Board of School Trustees	Supervisory
REVENUES				
State sources	\$ -	\$ 4,067	\$ -	\$ 1,060
Local sources:				
Fees for services	77,746	15,296	-	-
Interest	3	2	-	-
Total revenues	77,749	19,365	-	1,060
EXPENDITURES				
Salaries	-	-	-	-
Benefits	15,390	-	-	-
Purchased services	48,570	12,575	805	550
Supplies and materials	1,340	1,140	-	-
Miscellaneous	4,569	140	-	-
Payment to other governments	-	-	-	-
Capital expenditures	-	637	-	513
Total expenditures	69,869	14,492	805	1,063
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	7,880	4,873	(805)	(3)
FUND BALANCES, BEGINNING OF YEAR	23,355	11,178	4,354	22
FUND BALANCES (DEFICIT), END OF YEAR	\$ 31,235	\$ 16,051	\$ 3,549	\$ 19

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 8
 (CONTINUED)

	Reading Recovery Installation Fees	Reading Improvement Block	Reading Recovery Operations	Distributive Interest
REVENUES				
State sources	\$ -	\$ 15,942	\$ -	\$ 12,892
Local sources:				
Fees for services	-	-	158,715	5
Interest	11	-	6	167
Total revenues	11	15,942	158,721	13,064
EXPENDITURES				
Salaries	-	-	81,872	-
Benefits	-	-	17,217	-
Purchased services	-	25,050	27,427	6,082
Supplies and materials	-	-	16,858	823
Miscellaneous	-	-	-	14,623
Payment to other governments	-	-	4,195	-
Capital expenditures	-	-	-	-
Total expenditures	-	25,050	147,569	21,528
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11	(9,108)	11,152	(8,464)
FUND BALANCES, BEGINNING OF YEAR	79,599	-	18,355	22,559
FUND BALANCES (DEFICIT), END OF YEAR	\$ 79,610	\$ (9,108)	\$ 29,507	\$ 14,095

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 8
 (CONTINUED)

	Learning Technology Center	PASS (Positive Alternative Student Services)	Pre-School Monitoring	National Dropout Prevention Conference	Total
REVENUES					
State sources	\$ 96,437	\$ -	\$ 57,042	\$ -	\$ 187,440
Local sources:					
Fees for services	-	54,394	-	8,500	314,656
Interest	-	598	-	-	787
Total revenues	96,437	54,992	57,042	8,500	502,883
EXPENDITURES					
Salaries	79,480	63,765	-	-	225,117
Benefits	7,237	5,124	-	-	44,968
Purchased services	5,720	43,614	57,042	-	227,435
Supplies and materials	-	4,002	-	-	24,163
Miscellaneous	-	73	-	-	19,405
Payment to other governments	4,000	-	-	-	8,195
Capital expenditures	-	-	-	-	1,150
Total expenditures	96,437	116,578	57,042	-	550,433
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	(61,586)	-	8,500	(47,550)
FUND BALANCES, BEGINNING OF YEAR	-	112,288	224	-	271,934
FUND BALANCES (DEFICIT), END OF YEAR	\$ -	\$ 50,702	\$ 224	\$ 8,500	\$ 224,384

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - ALL AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 10

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2010</u>
ASSETS				
Cash and cash equivalents	\$ 278,576	\$ 3,437,373	\$ 3,712,927	\$ 3,022
LIABILITIES				
Distributive payable	\$ 278,576	\$ 3,437,373	\$ 3,712,927	\$ 3,022

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURERS AND OTHERS
FOR THE YEAR ENDED JUNE 30, 2010

SCHEDULE 11

	Regional Superintendent of Schools	Education Service Center	Truancy Alternative Program	Total
General State Aid - Safe School	\$ 269,648	\$ -	\$ -	\$ 269,648
General State Aid - ALOP	969,400	-	-	969,400
Gifted Education	-	323,216	-	323,216
School Bus Driver Training	4,067	-	-	4,067
Truants Alternative/Optional Education	-	-	120,493	120,493
ROE Safe School	-	1,287,277	-	1,287,277
Reading Leadership RR	11,385	-	-	11,385
ROE/ISC Operations	-	225,609	-	225,609
Supervisory Expense	1,000	-	-	1,000
Technology - Learning Technology Center	-	99,903	-	99,903
Teacher Mentoring	-	66,360	-	66,360
Title I-Reading First Part B	-	59,225	-	59,225
ARRA General State Aid-Safe School	44,941	-	-	44,941
ARRA General State Aid - ALOP	161,567	-	-	161,567
ARRA GSA - Government SFSF - Safe School	14,980	-	-	14,980
ARRA GSA - Government SFSF - ALOP	53,856	-	-	53,856
Total	\$ 1,530,844	\$ 2,061,590	\$ 120,493	\$ 3,712,927

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO.34
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2010**

SCHEDULE 12

Federal Grantor/Pass-Through Grantor Program/Grant Title	CFDA Number	Pass-Through/ Contract Number	FY 2010 Expenditures
STATE FISCAL STABILIZATION FUND CLUSTER:			
<u>DEPARTMENT OF EDUCATION</u>			
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act			
Passed-Through Illinois State Board of Education			
<i>General State Aid (Education Stabilization Fund)</i>	(M) 84.394A	2010-4850-93	\$ 44,941
<i>General State Aid (Education Stabilization Fund)</i>	(M) 84.394A	2010-4850-95	161,566
			<u>206,507</u>
ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act			
Passed-Through Illinois State Board of Education			
<i>General State Aid (Government Stabilization Fund)</i>	(M) 84.397A	2010-4870-93	14,980
<i>General State Aid (Government Stabilization Fund)</i>	(M) 84.397A	2010-4870-95	53,857
			<u>68,837</u>
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 275,344</u>
TOTAL STATE FISCAL STABILIZATION FUND CLUSTER			<u>\$ 275,344</u>
OTHER PROGRAMS:			
<u>DEPARTMENT OF EDUCATION</u>			
Reading First State Grants			
Passed-Through Illinois State Board of Education			
<i>Title I - Reading First Part B SEA</i>	84.357A	2010-4337-00	<u>93,272</u>
Improving Teacher Quality State Grants			
Passed-Through Will County Regional Office of Education No. 56			
<i>Title II - Teacher Quality - Leadership Grant</i>	84.367A	2009-4935-SS	36,986
<i>Title II - Teacher Quality - Leadership Grant</i>	84.367A	2010-4935-SS	62,322
			<u>99,308</u>
Title I Grants to Local Educational Agencies			
Passed-Through Will County Regional Office of Education No. 56			
<i>Title I - School Improvement and Accountability</i>	(M) 84.010A	2009-4331-SS	154,529
<i>Title I - School Improvement and Accountability</i>	(M) 84.010A	2010-4331-SS	729,957
			<u>884,486</u>
Education for Homeless Children and Youth			
Passed-Through Will County Regional Office of Education No. 56			
<i>McKinney Education for Homeless Children</i>	84.196A	2010-4920-00	<u>53,950</u>
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 1,131,016</u>
TOTAL OTHER PROGRAMS			<u>\$ 1,131,016</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,406,360</u>

(M) Program was audited as a major program.

The accompanying notes are an integral part of this schedule.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010**

Note 1. Reporting Entity Basis of Presentation and Accounting

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Lake County Regional Office of Education No. 34 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

Not Applicable.

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

The Title I - School Improvement & Accountability accounts for grant monies received for, and payment of, expenditures of the Title I - School Improvement and Accountability Fund. 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 school within the district.

ARRA - General State Aid (Education State Grants, Recovery Act) was allocated through the State Fiscal Stabilization Funds (SFSF) section of the American Recovery and Reinvestment Act (ARRA). This grant was intended to support and restore funding for elementary, secondary, and postsecondary education and, as applicable, early childhood education programs and services in States and local educational agencies.

ARRA - General State Aid (Government Services, Recovery Act) was allocated through the State Fiscal Stabilization Funds (SFSF) section of the American Recovery and Reinvestment Act (ARRA). This grant was intended to support public safety and other government services, which may include assistance for elementary and secondary education, and for modernization, renovation or repair of public school facilities.

Note 4. Non-Cash Assistance

Not Applicable.

Note 5. Amount of Insurance

Not Applicable.

Note 6. Loans or Loan Guarantees Outstanding

Not Applicable.