

STATE OF ILLINOIS
HANCOCK/MCDONOUGH
REGIONAL OFFICE OF EDUCATION # 26
FINANCIAL AUDIT
(In Accordance with the Single Audit Act and OMB Circular A-133)
For the Year Ended June 30, 2006

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

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HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
OFFICIALS

Regional Superintendent

Mr. Gary Eddington - current
Mr. Robert Baumann – during period

Assistant Regional Superintendent

Mr. John Meixner – current
Mr. Gary Eddington – during period

Offices are located at:

130 South LaFayette Street
Suite 200
Macomb, Illinois 61455

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
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	2	4
Repeated Audit Findings	2	2
Prior recommendations implemented or not repeated	2	1

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
<i>Findings (Government Auditing Standards)</i>		
06-01	15	Controls over compliance with laws and regulations
06-02	18	Lack of cost allocation plan
<i>Findings and Questioned Costs (Federal Compliance)</i>		
06-02	18	Lack of cost allocation plan
<i>Prior Audit Findings not Repeated (Government Auditing Standards)</i>		
05-03	26	Failure to allocate interest earned
05-04	26	Lack of authorized approval on timesheets

An exit conference was held on December 13, 2006 at ROE #26. Attending were Gary Eddington, Regional Superintendent, Betty Martin, Bookkeeper, and Mark Reinken, auditor. The findings and audit process in general were discussed. Responses to the recommendations were provided by Gary Eddington on December 13, 2006.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
FINANCIAL STATEMENT REPORT
SUMMARY

The audit of the accompanying basic financial statements of Hancock/McDonough Regional Office of Education #26 was performed by Ginoli & Company Ltd.

Based on their audit, the auditors expressed an unqualified opinion on the Hancock/McDonough Regional Office of Education #26'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 Hancock/McDonough Regional Office of Education #26, as of and for the year ended June 30, 2006, which collectively comprise the Hancock/McDonough Regional Office of Education #26's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regional Office of Education #26's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock/McDonough Regional Office of Education #26, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 2006 on our consideration of the Hancock/McDonough Regional Office of Education #26'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 27 through 33 and Illinois Municipal Retirement Fund Schedule of Funding Progress on page 64 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 Hancock/McDonough Regional Office of Education #26's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and Schedule of Disbursements to School District Treasurers and Others are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hancock/McDonough Regional Office of Education #26. 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.


GINOLI & COMPANY LTD
Certified Public Accountants

Peoria, Illinois
October 25, 2006



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock/McDonough Regional Office of Education #26, as of and for the year ended June 30, 2006, which collectively comprise the Hancock/ McDonough Regional Office of Education #26's basic financial statements and have issued our report thereon dated October 25, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hancock/McDonough Regional Office of Education #26's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hancock/McDonough Regional Office of Education #26's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item 06-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock/McDonough Regional Office of Education #26's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we reported on the accompanying Schedule of Findings and Questioned Costs as item 06-01.

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


GINOLI & COMPANY LTD
Certified Public Accountants

Peoria, Illinois
October 25, 2006



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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Hancock/McDonough Regional Office of Education #26 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Hancock/McDonough Regional Office of Education #26's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hancock/McDonough Regional Office of Education #26's management. Our responsibility is to express an opinion on the Hancock/McDonough Regional Office of Education #26'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 Hancock/McDonough Regional Office of Education #26'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 Hancock/McDonough Regional Office of Education #26's compliance with those requirements.

In our opinion, the Hancock/McDonough Regional Office of Education #26 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 06-02.

Internal Control Over Compliance

The management of the Hancock/McDonough Regional Office of Education #26 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 Hancock/McDonough Regional Office of Education #26's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Hancock/McDonough Regional Office of Education #26's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-02.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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

Genoli & Company Ltd
GINOLI & COMPANY LTD
Certified Public Accountants

Peoria, Illinois
October 25, 2006

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

Section I -- Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unqualified
(unqualified, qualified, adverse, disclaimer)

Internal control over financial reporting:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are not considered to be material weakness(es)? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes X no

Reportable condition(s) identified that are not considered to be material weakness(es)? X yes none reported

Type of auditor's report issued on compliance for major programs: unqualified
(unqualified, qualified, adverse, disclaimer)

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

HANCOCK/MCDONOUGH COUNTIES REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006
(CONTINUED)

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.181	Special Education - Grants for Infants and Families with Disabilities
84.196A	McKinney Education for Homeless Children

Dollar threshold used to distinguish between
Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee yes X no n/a

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Finding No. 06-01 – Controls Over Compliance with Laws and Regulations (Repeat of prior year finding: 05-01)

Criteria/specific requirements:

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

Conditions:

- A. The Regional Office of Education #26 is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent has been examining school district financial statements on an annual basis.
- B. The Regional Office of Education #26 performs compliance inspections for each public school in his Region on a rotational basis every four years instead of annually. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.
- C. The Regional Office of Education #26 did not present at the September county board meetings and as nearly quarterly thereafter, a report of all his acts including a list of the schools visited and dates of visitation. The ROE did submit an annual financial report to its counties but the report did not contain all of the items mentioned in the School Code.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Effects:

The Regional Office of Education #26 did not comply with statutory requirements

Causes:

- A. The level of financial review performed by the Regional Superintendent is not adequate to comply with the statute.
- B. The Regional Superintendent believes the periodic compliance visits he completes are sufficient to satisfy the statutory requirement.
- C. The Regional Superintendent does present an annual report to the county boards, but the Superintendent was unaware of the specific details required to be included in the report and the frequency of the need to report to the county boards.

Recommendations:

- A. The Regional Office of Education #26 should comply with the requirements of 105 ILCS 5/3-14.11.
- B. The Regional Superintendent should visit each public school annually to review all items as required by 105 ILCS 5/3-14.5.
- C. The Regional Superintendent should affirm to the county boards, in September and quarterly thereafter, a report of all of his acts as county superintendent as required by 105 ILCS 5/3-5.

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

Management's Response:

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

- B. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 1.20 of the 23rd Illinois Administrative Code is a more current, thorough, and comprehensive requirement concerning visitation of public schools by the Regional Superintendent. As a result, the two parties working together will seek legislation to repeal section 5/3-14.5 of the Illinois School Code.
- C. The Regional Office of Education #26 will report, on a quarterly basis, the official acts of the Regional Superintendent.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Finding No. 06-02 – Lack of cost allocation plan (Repeat of prior year findings: 05-02, 04-03, 03-06)

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities
(b) McKinney Education for Homeless Children

Project No. – (a) 611G6167721 and 511G5167721 (b) 06-4920-00 and 05-4920-00

CFDA No. – (a) 84.181 (b) 84.196A

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education

Federal Agency – (a) U.S. Department of Education (b) U.S. Department of Education

Criteria/specific requirement:

Grants, cost reimbursement contracts and other agreements with the Federal Government (collectively known as Federal Awards) should bear their fair share of costs recognized under principles established by the federal Office of Management and Budget (OMB). Costs are allocable to Federal Awards if the goods or services involved are chargeable or assignable to the award in accordance with the relative benefits received. Where an accumulation of indirect costs will ultimately result in charges to a Federal Award, a cost allocation plan is required as described in Attachments C, D and E of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

Condition:

The Regional Office of Education #26 does not maintain a cost allocation plan to allocate indirect costs as in accordance with OMB Circular A-87. The Regional Office of Education #26 invoices the various grants and programs it administers for central service activities, including support salaries and related benefits, accounting and secretarial services, and space rent based on the grants' budgeted costs, (rather than as part of a Cost Allocation Plan). Such salaries and benefits are allowable expenditures under OMB Circular A-87. However, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages is required to be documented in accordance with the provisions of OMB Circular A-87 or be included in the ROE's cost allocation plan. Rent costs are also an allowable expenditure, subject to limitations included in OMB Circular A-87.

Questioned Costs:

The amount of questioned costs cannot be determined without preparing a cost allocation plan.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

Context:

The Regional Office of Education allocated a total of \$38,482 of indirect costs to the above programs. While these costs were approved in the grant budgets, without documentation of the basis for, and rationale behind, the allocations, the amounts over- or under-charged to the programs cannot be readily determined. Based on the total amount of allocated costs charged to the programs, any amount deemed to be over-charged to the Award most likely would be considered immaterial.

Effect:

The Regional Office of Education #26 is not able to determine if the amount of central service activities charged to the Federal Award represent the grant's "fair share" of costs recognized under principles required by OMB Circular A-87.

Cause:

The Regional Office of Education #26 determined the amount of costs to be allocated to the grant programs based on amounts allowable in grant budgets.

Recommendation:

The Regional Office of Education #26 should develop a cost allocation plan in accordance with OMB Circular A-87 which addresses allowable costs to all applicable programs.

Management's Response:

The greatest portion of costs related to conducting the activities involved with the various grants administered by the Regional Office of Education #26 involve salaries of staff. The Regional Office of Education #26 has developed a time study plan that seeks to ascertain how much time each of the organization's approximately sixty (60) employees spend in performance of duties related to the grants. This time study is based on a template sent to the Regional Office of Education #26 by the Illinois State Board of Education. (This template was modified to more closely follow the activities performed by Regional Office staff, as there was some difference between these activities and those for which the Illinois State Board of Education staff are held accountable.)

The time study is being completed on a daily basis by the Regional Office of Education #26 employees. As work performed for the various grants is not equally distributed throughout the year, this study will cover an extensive period of time (approximately one year.) A hard copy of each employee's data is being maintained, as well as an Excel Spreadsheet file for each employee. The computer record calculates, for each employee, the percentage of time spent working on 27 different functions/duties performed by the Regional Office of Education #26. It is the hope of the management of the Regional Office of Education #26 that the effect of this time study will be to give documentation that will substantiate the costs for salaries allocated to the various grants we administer and will give grant writers a much more quantitative rationale for the requests they make for salaries in future grant applications.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

A second aspect of costs allocated to various grants by the Regional Office of Education #26 are those related to various clerical expenses, such as for copying and telephone expense. It is our understanding that a significant amount of those costs are currently being adequately documented. For instance, copying machines used by the Regional Office of Education #26 are equipped with meters which require the input of a code number before they will function. As each grant is given a specific code, the log of the copier use, supplied by the meter, provides the basis for cost of copies for each grant administered by the Regional Office of Education #26. Management understands that similar records exist for the phone charges. According to the State Board, this documentation would be sufficient for a cost allocation requirement.

To assure a proper charge is being made for rent costs, the Regional Office of Education #26 proposes to measure the areas used for offices for the various grants and charge the grants their fair share on a proportional basis.

The management of the Regional Office of Education #26 assumes that these activities will meet requirements for a viable cost allocation plan. While we are gaining what we consider to be valuable guidance from the employees' time study at this time, conclusive data will take time to accumulate. The management of the Regional Office of Education #26 welcomes assistance/guidance in this area.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION III – FEDERAL AWARD FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

INSTANCES OF NON COMPLIANCE:

1. FINDING 06-02 – Lack of cost allocation plan (finding details on pages 18-20)

REPORTABLE CONDITIONS:

1. FINDING 06-02 – Lack of cost allocation plan (finding details on pages 18-20)

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

FINDING 06-01 – Controls over compliance with laws and regulations

Condition:

- A. The Regional Office of Education #26 is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent has been examining school district financial statements on an annual basis.
- B. The Regional Office of Education #26 performs compliance inspections for each public school in his Region on a rotational basis every four years instead of annually. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.
- C. The Regional Office of Education #26 did not present at the September county board meetings and as nearly quarterly thereafter, a report of all his acts including a list of the schools visited and dates of visitation. The ROE did submit an annual financial report to its counties but the report did not contain all of the items mentioned in the School Code.

Corrective Action Plan:

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

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

- B. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 1.20 of the 23rd Illinois Administrative Code is a more current, thorough, and comprehensive requirement concerning visitation of public schools by the Regional Superintendent. As a result, the two parties working together will seek legislation to repeal section 5/3-14.5 of the Illinois School Code.
- C. The Regional Office of Education #26 will report, on a quarterly basis, the official acts of the Regional Superintendent.

Anticipated Date of Completion:

As soon as practical

Contact Person:

Gary Eddington, Regional Superintendent

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

FINDING 06-02 – Lack of cost allocation plan

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities (b) McKinney Education for Homeless Children

Project No. – (a) 611G6167721 and 511G5167721 (b) 06-4920-00 and 05-4920-00

CFDA No. – (a) 84.181 (b) 84.196A

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education

Federal Agency – (a) U.S. Department of Education (b) U.S. Department of Education

Condition:

The Regional Office of Education #26 does not maintain a cost allocation plan to allocate indirect costs as in accordance with OMB Circular A-87. The Regional Office of Education #26 invoices the various grants and programs it administers for central service activities, including support salaries and related benefits, accounting and secretarial services, and space rent based on the grants' budgeted costs, (rather than as part of a Cost Allocation Plan). Such salaries and benefits are allowable expenditures under OMB Circular A-87. However, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages is required to be documented in accordance with the provisions of OMB Circular A-87 or be included in the ROE's cost allocation plan. Rent costs are also an allowable expenditure, subject to limitations included in OMB Circular A-87.

Corrective Action Plan:

The greatest portion of costs related to conducting the activities involved with the various grants administered by the Regional Office of Education #26 involve salaries of staff. The Regional Office of Education #26 has developed a time study plan that seeks to ascertain how much time each of the organization's approximately sixty (60) employees spend in performance of duties related to the grants. This time study is based on a template sent to the Regional Office of Education #26 by the Illinois State Board of Education. (This template was modified to more closely follow the activities performed by Regional Office staff, as there was some difference between these activities and those for which the Illinois State Board of Education staff are held accountable.)

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

The time study is being completed on a daily basis by the Regional Office of Education #26 employees. As work performed for the various grants is not equally distributed throughout the year, this study will cover an extensive period of time (approximately one year.) A hard copy of each employee's data is being maintained, as well as an Excel Spreadsheet file for each employee. The computer record calculates, for each employee, the percentage of time spent working on 27 different functions/duties performed by the Regional Office of Education # 26. It is the hope of the management of the Regional Office of Education # 26 that the effect of this time study will be to give documentation that will substantiate the costs for salaries allocated to the various grants we administer and will give grant writers a much more quantitative rationale for the requests they make for salaries in future grant applications.

A second aspect of costs allocated to various grants by the Regional Office of Education #26 are those related to various clerical expenses, such as for copying and telephone expense. It is our understanding that a significant amount of those costs are currently being adequately documented. For instance, copying machines used by the Regional Office of Education #26 are equipped with meters which require the input of a code number before they will function. As each grant is given a specific code, the log of the copier use, supplied by the meter, provides the basis for cost of copies for each grant administered by the Regional Office of Education #26. Management understands that similar records exist for the phone charges. According to the State Board, this documentation would be sufficient for a cost allocation requirement.

To assure a proper charge is being made for rent costs, the Regional Office of Education #26 proposes to measure the areas used for offices for the various grants and charge the grants their fair share on a proportional basis.

The management of the Regional Office of Education #26 assumes that these activities will meet requirements for a viable cost allocation plan. While we are gaining what we consider to be valuable guidance from the employees' time study at this time, conclusive data will take time to accumulate. The management of the Regional Office of Education #26 welcomes assistance/guidance in this area.

ANTICIPATED DATE OF COMPLETION:

May, 31, 2007

CONTACT PERSON:

Gary Eddington, Regional Superintendent

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For Year Ended June 30, 2006

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
05-01	Controls over compliance with laws and regulations	Repeated.
05-02	Lack of cost allocation plan	Repeated.
05-03	Failure to allocate interest earned	Not Repeated.
05-04	Lack of authorized approval on timesheets	Not Repeated.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

The Hancock/McDonough Regional Office of Education #26 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information with the Agency's financial statements, which follow.

2006 Financial Highlights

General Fund revenues increased from \$604,370 in fiscal year 2005 (FY 05) to \$690,785 in fiscal year 2006 (FY 06). The General Fund expenditures also increased from \$615,609 in FY 05 to \$749,043 in FY 06. The Regional Office experienced a decrease in the General Fund balance from \$279,807 at the beginning of FY 06 to a General Fund balance of \$221,550 at the end of FY 06.

The increase in General Fund revenues is a result of an approximately 3% increase in revenue from the Hancock and McDonough Counties and the receipt of some funds in 2006 that were due in 2005. General Fund expenditures increased due to increased salary and benefits paid to employees. In addition, the cost of travel increased significantly.

Using This Annual Report

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Office's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Regional Office of Education #26 as a whole and present an overall view of the Office's finances.
- The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Office's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplementary information further explains and supports the financial statements with a comparison of the Office's detailed information for each category of funds and also provides detailed information about the non-major funds.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Reporting the Regional Office of Education #26 as a Whole

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the Regional Office of Education #26 as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Hancock/McDonough Regional Office of Education #26's 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.

The two government-wide statements report the Office's net assets and how they have changed. Net assets—the difference between the assets and liabilities—are one way to measure the Office's health or position.

- Over time, increases or decreases in the net assets can be an indicator of whether the financial position is improving or deteriorating, respectively.
- To assess the 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 provided detailed information about the Regional Office's funds, focusing on its most significant or "major" funds. Funds are accounting devices which allow the tracking of specific sources of funding and spending on particular programs. Some funds are required by State law. The Hancock/McDonough Regional Office of Education #26 established other funds to control and manage money for particular purposes.

- 1) Governmental funds account for a majority of the Office's services. These focus on how cash and other financial assets that can be readily converted to cash flow in and out and balances left at 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 Funds.

The governmental fund's required financial statements include a Balance Sheet and a Statement of Revenue, Expenditures and Changes in Fund Balances.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

- 2) Proprietary funds account for services for which the Hancock/McDonough Regional Office of Education #26 charges fees under a cost-reimbursement method. These fees cover the costs of certain services and workshops it provides.

The proprietary fund's required financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows.

- 3) Fiduciary funds account for services for which the Hancock/McDonough Regional Office of Education #26 acts as fiscal agent for individuals and private or governmental organizations.

The fiduciary funds required financial statements include a Statement of Fiduciary Net Assets.

A summary reconciliation between the government-wide financial statements and the fund financial statements are included after each fund financial statement.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Hancock/McDonough Regional Office of Education #26's net assets at the end of fiscal year 2005 totaled \$751,999. At the end of fiscal year 2006, the net assets were \$699,072. The analysis that follows provides a summary of the Office's net assets at June 30, 2006 and 2005.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

**CONDENSED STATEMENT OF NET ASSETS
June 30, 2006 and 2005**

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current Assets	\$736,213	\$768,802	\$545,943	\$363,223	\$1,282,156	\$1,132,025
Capital Assets, net of depreciation	63,338	41,596	56,367	46,894	119,705	88,490
TOTAL ASSETS	<u>\$799,551</u>	<u>\$810,398</u>	<u>\$602,310</u>	<u>\$410,117</u>	<u>\$1,401,861</u>	<u>\$1,220,515</u>
LIABILITIES						
Current Liabilities	\$151,163	\$124,131	\$530,183	\$326,591	\$681,346	\$450,722
Compensated absences	21,443	17,794	-	-	21,443	17,794
TOTAL LIABILITIES	<u>\$172,606</u>	<u>\$141,925</u>	<u>\$530,183</u>	<u>\$326,591</u>	<u>\$702,789</u>	<u>\$468,516</u>
NET ASSETS						
Investments in capital assets, net of related debt	\$63,338	\$41,596	\$56,367	\$46,894	\$119,705	\$88,490
Unrestricted	537,334	604,758	15,760	36,632	553,094	641,390
Restricted for teacher professional development	26,273	22,119	-	-	26,273	22,119
TOTAL NET ASSETS	<u>\$626,945</u>	<u>\$668,473</u>	<u>\$72,127</u>	<u>\$83,526</u>	<u>\$699,072</u>	<u>\$751,999</u>

Net assets related to the Teacher Institute Fund are considered restricted for teacher professional development.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

CHANGES IN NET ASSETS

For the Years Ended June 30, 2006 and 2005

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 15,040	\$ 15,311	\$905,190	\$767,311	\$ 920,230	\$ 782,622
Operating grants & contributions	2,081,520	2,022,025	-	-	2,081,520	2,022,025
General Revenues:						
Local Sources	534,397	392,542	-	-	534,397	392,542
On-behalf payments	219,167	246,956	-	-	219,167	246,956
Investment income	12,948	7,307	-	-	12,948	7,307
Total Revenues	\$2,863,072	\$2,684,141	\$905,190	\$767,311	\$3,768,262	\$3,451,452
Expenses						
Salaries	1,123,126	1,080,087	16,000	17,000	1,139,126	1,097,087
Benefits	376,897	268,920	3,078	2,820	379,975	271,740
Purchased Services	890,452	783,443	18,104	17,771	908,556	801,214
Supplies and materials	83,029	81,266	5,421	3,950	88,450	85,216
Materials for resale	-	-	869,835	726,529	869,835	726,529
Depreciation	15,625	12,030	4,151	1,800	19,776	13,830
Capital Outlay	-	3,752	-	733	-	4,485
Bad debts expense	-	23,964	-	-	-	23,964
Other objects	454	-	-	-	454	-
Transfers-payments to other governmental units	195,850	200,143	-	-	195,850	200,143
On-behalf payments	219,167	246,956	-	-	219,167	246,956
Total Expenses	2,904,600	2,700,561	916,589	770,603	3,821,189	3,471,164
Change in net assets	\$(41,528)	\$(16,420)	\$(11,399)	\$ (3,292)	\$(52,927)	\$(19,712)
Net assets-beginning	668,473	684,893	83,526	86,818	751,999	771,711
Net assets-ending	\$626,945	\$668,473	\$ 72,127	\$83,526	\$699,072	\$751,999

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Governmental Activities

For FY 06, revenues for governmental activities were \$2,863,072 and expenses were \$2,904,600. The Regional Office of Education #26 determined that the increase in expense is due to higher salary, benefits, and travel costs.

Business-Type Activities

Revenue for the Hancock/McDonough Regional Office of Education #26's business-type activities and expenses combined for a balance of (\$11,399). This is due primarily to increased expenses relative to the Purchasing Co-op.

Financial Analysis of the Regional Office of Education #26 Funds

As previously noted, the ROE #26 uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The Agency's Governmental Funds report combined fund balances were \$585,050.

Governmental Fund Highlights

- The number of dollars coming from the State of Illinois to the Regional Office of Education #26 for educational programs has continued to decrease, impacting the number of programs that can be offered.
- County support for the Regional Office of Education #26 will increase to \$76,426.
- All of the grant programs facilitated by the Regional Office of Education #26 in FY 05 continued in FY 06.

Budgetary Highlights

The Office annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles when required by the granting agency. The Illinois State Board of Education reviews the proposed budget and either grants approval or returns it without approval with comments. Any unapproved budget must be resubmitted to the Illinois State Board of Education for final approval. The budget may be amended during the year utilizing procedures prescribed by the Illinois State Board of Education. Schedules showing the budget amounts compared to the Office's actual financial activity are included in supplementary information of this report.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006**

Capital Assets

The value of capital assets increased during FY 2006 due to the movement of our CFC office from Roseville to Monmouth which necessitated the purchase of five desks and computers; the need to update the desk, computer, and printer in the Regional Superintendent's office; the need to update the computers used by truancy workers; the requirement to update a computer and printer for the TAOEP and Homeless staff; the necessity for an additional printer for the bookkeeper; the need for a new computer for the administrator of the History Grant; and, the purchase of a storage bin for the Western Area Purchasing Co-Op.

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Regional Office of Education #26 was aware of several existing circumstances that could affect its financial condition in the future:

- The Regional Office of Education #26 has received an Early Childhood Block Grant (Pre-School for All Children) in the amount \$342,000.
- County Board support for Regional Office of Education #26 will increase by 3%.
- Several pieces of equipment will need to be replaced, chief of which will be a relatively expensive server for the office.
- The Foundation Level for general state aid is anticipated to increase slightly.
- At the time of this writing, the Regional Office of Education #26's ability to maintain an office in Carthage, IL is in doubt due to lack of space for court related services in the Hancock County Courthouse.

Contacting the Regional Office's Financial Management

This financial report is designed to provide the Regional Office's citizens, taxpayers, clients, and other constituents with a general overview of its finances and demonstrate the accountability for the money it receives. If the reader has questions concerning this report or needs additional financial information, please contact the Regional Superintendent of the Regional Office of Education #26, 130 South Lafayette Street, Suite 200, Macomb, IL 61455.

BASIC FINANCIAL STATEMENTS

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash	\$ 716,088	\$ 18,087	\$ 734,175
Inventory	-	527,415	527,415
Due from other governments	20,125	441	20,566
Total current assets	\$ 736,213	\$ 545,943	\$ 1,282,156
NONCURRENT ASSETS			
Capital assets, net of depreciation	63,338	56,367	119,705
TOTAL ASSETS	\$ 799,551	\$ 602,310	\$ 1,401,861
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 12,873	\$ 526,265	\$ 539,138
Due to other governments	4,053	-	4,053
Deferred revenue	134,237	3,918	138,155
Total current liabilities	\$ 151,163	\$ 530,183	\$ 681,346
NONCURRENT LIABILITIES			
Compensated absences	21,443	-	21,443
TOTAL LIABILITIES	\$ 172,606	\$ 530,183	\$ 702,789
NET ASSETS			
Investments in capital assets, net of related debt	\$ 63,338	\$ 56,367	\$ 119,705
Unrestricted	537,334	15,760	553,094
Restricted for teacher professional development	26,273	-	26,273
TOTAL NET ASSETS	\$ 626,945	\$ 72,127	\$ 699,072

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2006

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants	Primary Government Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS					
PRIMARY GOVERNMENT					
Governmental Activities:					
Instructional Services:					
Salaries	\$ 1,123,126	\$ 959,660	\$ (163,466)	\$ -	\$ (163,466)
Benefits	376,897	284,209	(92,688)	-	(92,688)
Purchased services	890,452	542,996	(334,097)	-	(334,097)
Supplies and materials	83,029	62,470	(18,878)	-	(18,878)
Depreciation	15,625	-	(15,625)	-	(15,625)
Capital outlay	-	36,343	36,343	-	36,343
Other objects	454	-	(454)	-	(454)
Transfers - payments to other governmental units	195,850	195,842	(8)	-	(8)
Administrative:					
On-behalf payments	219,167	-	(219,167)	-	(219,167)
Total Governmental Activities	\$ 2,904,600	\$ 2,081,520	\$ (808,040)	\$ -	\$ (808,040)
Business-type Activities:					
Other	\$ 916,589	\$ -	\$ -	\$ (11,399)	\$ (11,399)
Total Business-type Activities	\$ 916,589	\$ -	\$ -	\$ (11,399)	\$ (11,399)
Total Primary Government	\$ 3,821,189	\$ 2,081,520	\$ (808,040)	\$ (11,399)	\$ (819,439)
General Revenues:					
Local sources		\$ 534,397	\$ -	\$ -	\$ 534,397
On-behalf payments		219,167			219,167
Investment income		12,948			12,948
Total General Revenues		\$ 766,512	\$ -	\$ -	\$ 766,512
Change in net assets		\$ (41,528)	\$ (11,399)	\$ -	\$ (52,927)
Net Assets - beginning of year		668,473	83,526		751,999
Net Assets - end of year		\$ 626,945	\$ 72,127	\$ -	\$ 699,072

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 GOVERNMENTAL FUNDS
 BALANCE SHEET
 JUNE 30, 2006

	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash	\$ 222,236	\$ 437,753	\$ 56,099	\$ 716,088
Due from other funds	111	50,699	-	50,810
Due from other governments	-	20,125	-	20,125
TOTAL ASSETS	\$ 222,347	\$ 508,577	\$ 56,099	\$ 787,023
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 686	\$ 12,187	\$ -	\$ 12,873
Due to other funds	111	50,059	640	50,810
Due to other governments	-	4,053	-	4,053
Deferred revenue	-	107,613	26,624	134,237
Total liabilities	\$ 797	\$ 173,912	\$ 27,264	\$ 201,973
FUND BALANCE				
Unreserved				
General fund	\$ 221,550	\$ -	\$ -	\$ 221,550
Special revenue funds	-	334,665	28,835	363,500
Total fund balance	\$ 221,550	\$ 334,665	\$ 28,835	\$ 585,050
TOTAL LIABILITIES AND FUND BALANCE	\$ 222,347	\$ 508,577	\$ 56,099	\$ 787,023

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds \$ 613,039

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. 63,338

Long-term liabilities are not due and payable in the current
period and, therefore, are not reported in the
governmental funds. (21,443)

Net assets of governmental activities \$ 654,934

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 GOVERNMENTAL FUNDS
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
REVENUES				
State sources	\$ -	\$ 1,181,122	\$ 2,600	\$ 1,183,722
Federal sources	-	897,638	-	897,638
Local sources	491,023	56,292	15,230	562,545
On-behalf payments	199,762	19,405	-	219,167
Total revenues	\$ 690,785	\$ 2,154,457	\$ 17,830	\$ 2,863,072
EXPENDITURES				
Instructional services:				
Salaries	\$ 144,059	\$ 975,418	\$ -	\$ 1,119,477
Benefits	86,138	290,759	-	376,897
Purchased services	299,938	577,598	12,916	890,452
Supplies and materials	18,163	63,612	1,254	83,029
Transfers - payments to other governmental units	-	195,850	-	195,850
Capital outlay	983	36,838	-	37,821
On-behalf payments	199,762	19,405	-	219,167
Total expenditures	\$ 749,043	\$ 2,159,480	\$ 14,170	\$ 2,922,693
Revenues over (under) expenditures	\$ (58,258)	\$ (5,023)	\$ 3,660	\$ (59,621)
Other financing sources (uses)				
Transfers in	\$ 1	\$ -	\$ -	\$ 1
Transfers out	-	(1)	-	(1)
Total other financing sources (uses)	\$ 1	\$ (1)	\$ -	\$ -
Net change in fund balances	\$ (58,257)	\$ (5,024)	\$ 3,660	\$ (59,621)
FUND BALANCE, BEGINNING OF YEAR	279,807	339,689	25,175	644,671
FUND BALANCE, END OF YEAR	\$ 221,550	\$ 334,665	\$ 28,835	\$ 585,050

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 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, 2006

Net change in fund balances \$ (31,632)

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

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

Capital outlay	\$ 37,821	
Loss on disposal of assets	(454)	
Depreciation	<u>(15,625)</u>	21,742

Certain 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

(3,649)

Change in net assets of governmental activities \$ (13,539)

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 PROPRIETARY FUNDS
 STATEMENT OF NET ASSETS
 JUNE 30, 2006

	Business-type Activities		Total
	Enterprise Funds		
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	
Assets			
Current assets			
Cash and cash equivalents	\$ 6,398	\$ 11,689	\$ 18,087
Due from other governments	-	441	441
Inventory	527,415	-	527,415
Total current assets	<u>\$ 533,813</u>	<u>\$ 12,130</u>	<u>\$ 545,943</u>
Noncurrent assets			
Equipment, net	\$ 2,826	\$ 9,791	\$ 12,617
Building, net	43,750	-	43,750
Total noncurrent assets	<u>\$ 46,576</u>	<u>\$ 9,791</u>	<u>\$ 56,367</u>
Total Assets	<u>\$ 580,389</u>	<u>\$ 21,921</u>	<u>\$ 602,310</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	\$ 526,265	\$ -	\$ 526,265
Deferred revenue	3,918	-	3,918
Total liabilities	<u>\$ 530,183</u>	<u>\$ -</u>	<u>\$ 530,183</u>
Net Assets			
Invested in capital assets, net of related debt	\$ 46,576	\$ 9,791	\$ 56,367
Unrestricted	3,630	12,130	15,760
Total Net Assets	<u>\$ 50,206</u>	<u>\$ 21,921</u>	<u>\$ 72,127</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities		
	Enterprise Funds		
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	Totals
Operating Revenues			
Charges for services	\$ 895,645	\$ 9,545	\$ 905,190
Operating Expenses			
Salaries	\$ 16,000	\$ -	\$ 16,000
Benefits	3,078	-	3,078
Purchased services	14,015	4,089	18,104
Supplies and materials	1,569	3,852	5,421
Materials for resale	869,835	-	869,835
Depreciation	2,105	2,046	4,151
Total operating expenses	\$ 906,602	\$ 9,987	\$ 916,589
Change in Net Assets	\$ (10,957)	\$ (442)	\$ (11,399)
Net Assets, Beginning of year	61,163	22,363	83,526
Net Assets, End of year	\$ 50,206	\$ 21,921	\$ 72,127

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities Enterprise Funds		
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	Totals
Cash Flows from Operating Activities:			
Receipts from customers	\$ 895,645	\$ 9,610	\$ 905,255
Payments to suppliers and providers of goods and services	(882,353)	(7,941)	(890,294)
Payments to employees	(19,078)	-	(19,078)
Net cash provided (used) by operating activities	<u>\$ (5,786)</u>	<u>\$ 1,669</u>	<u>\$ (4,117)</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	\$ (2,400)	\$ (11,224)	\$ (13,624)
Net cash used by capital and related financing activities	<u>\$ (2,400)</u>	<u>\$ (11,224)</u>	<u>\$ (13,624)</u>
Net decrease in cash and cash equivalents	\$ (8,186)	\$ (9,555)	\$ (17,741)
Cash and cash equivalents - Beginning of year	14,584	21,244	35,828
Cash and cash equivalents - End of year	<u>\$ 6,398</u>	<u>\$ 11,689</u>	<u>\$ 18,087</u>
Reconciliation of operating loss to net cash provided (used) by operating activities:			
Operating loss	\$ (10,957)	\$ (442)	\$ (11,399)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	2,105	2,046	4,151
(Increase)/decrease in assets:			
Inventory	(200,526)	-	(200,526)
Due from other governments	-	65	65
Increase in liabilities:			
Accounts payable	203,592	-	203,592
Deferred revenue	-	-	-
Net cash provided (used) by operating activities	<u>\$ (5,786)</u>	<u>\$ 1,669</u>	<u>\$ (4,117)</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 2,893
Due from other governments	<u>198,729</u>
TOTAL ASSETS	<u><u>\$ 201,622</u></u>
 LIABILITIES	
Due to other governments	<u>\$ 201,622</u>
TOTAL LIABILITIES	<u><u>\$ 201,622</u></u>

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of Hancock/McDonough Regional Office of Education #26 (ROE) substantially comply with the rules prescribed by the Illinois State Board of Education (ISBE). These accounting policies conform to Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB).

Reporting Entity

Hancock/McDonough Regional Office of Education #26 was created by Illinois Public Act 88-89, as amended. The ROE operates under the School Code (Articles 3 and 3A of *Illinois Compiled Statutes*, Chapter 105). The ROE encompasses Hancock and McDonough Counties. The voters of Hancock and McDonough Counties elect the Regional Superintendent of Schools. The Regional Superintendent of Schools (Superintendent) serves as chief administrative officer of the ROE and is elected pursuant to Article 3, *Illinois Compiled Statutes*, Chapter 105.

The regional superintendent is charged with responsibility for township fund lands, registration of the names of applicants for scholarships to State controlled universities; examinations and related duties; inspection of public schools; direction of teachers and school officers; to serve as the official advisor and assistant to school officers and teachers; to conduct teachers institutes as well as to aid and encourage the formation of other teacher meetings and assist in their management; evaluate the schools in the region; examine school treasurer's books, accounts, and vouchers; examine evidence of indebtedness; file and keep the returns of elections required to be returned to the Regional Superintendent's office; and file and keep the reports and statements returned by school treasurers and trustees.

The Regional Superintendent is also charged with the responsibilities of conducting a special census, when required; providing notice of any monies distributed to treasurers, board presidents, clerks and secretaries of the school districts on or before each September 30; maintenance of a map and numbering of the Regional Office of Education #26's districts; providing township treasurers with a list of district treasurers; to inspect and approve building plans which comply with State law; to perform and report on annual building inspections; investigate bus drivers for valid bus driver permits and take related action as may be required; to maintain a list of unfilled teaching positions and to carry out other related duties required by law.

The Regional Superintendent is responsible for inspection and approval or rejection of school treasurers' bonds. The Regional Superintendent is also required to provide the State Board of Education with an affidavit showing that the treasurers of school districts under his control are properly bonded.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Reporting Entity - continued

The Regional Superintendent is also responsible for apportionment and payment of funds received from the State for the districts in the region, or see that no payments are made unless the treasurer has filed or renewed appropriate bonds and that the district has certified publication of the annual financial report. The Regional Superintendent is required to provide opinions and advice related to controversies under school law.

For the period ended June 30, 2006, the Regional Office of Education #26 applied for, received, and administered numerous State and federal programs and grants in assistance of the educational activities of the school districts in the region. Such activities are reported as a single major special revenue fund (Education Fund).

The ROE's financial statements include all funds of the ROE.

These are the only activities considered to be part of (controlled by or dependent on) the ROE, as determined by the application of the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The ROE has developed criteria to determine whether outside agencies with activities which benefit the citizens of the region, including joint agreements which serve pupils from numerous school districts, should be included within its financial reporting entity. The criteria include, but are not limited to, whether the ROE 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. The blended component units described below are included in the ROE's reporting entity because of the significance of their operational or financial relationships with the ROE.

- *Western Area Purchasing Co-Op* is a joint agreement used to reduce costs to school districts by purchasing various supplies in larger quantities. School districts in West-Central Illinois place orders with the Co-Op, which accumulates the orders and purchases large quantities for distribution to the districts. The purchasing Co-Op is a discretionary activity fund.
- *Video Co-Op* is a joint agreement administered by the ROE, which maintains an inventory of videocassette tapes. The tapes and tape players are available for check-out by each of the school districts serviced by Regional Office of Education #26. The Video Co-Op is a discretionary activity fund.
- *Hancock/McDonough Alternative School and Alternative Training* – Used to account for State revenues and expenditures paid to provide an alternative education program in Hancock and McDonough Counties.
- *Gifted Co-Op Fund* – Used to account for a joint agreement for providing gifted instruction and coordination to school districts within ROE #26's region.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Reporting Entity - continued

Furthermore, the ROE does not consider itself to be a component unit of any other entity.

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 primary government. The effect of interfund activity has been removed from these statements. Governmental activities are supported by intergovernmental revenues and are reported separate from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and reported in a single column.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation -
Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay current liabilities. The ROE considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues from local sources consist primarily of fees charged to school districts for services rendered by the ROE. Miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Grant funds from the State of Illinois are considered to be earned to the extent of expenditures made under the provisions of the grant. Investment earnings are recorded as earned since they are measurable and available.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of this fund are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized by the proprietary fund type. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the related liability is incurred.

Under the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the ROE applies all GASB pronouncements and has elected to apply only the pronouncements issued on or before November 30, 1989 for the following: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

The ROE reports the following major governmental funds:

General Fund - The General Fund is used to account for resources traditionally associated with government which are not required, legally or by sound financial management, to be accounted for in another fund. The ROE's General Fund accounts include the following:

- *County Funds* – Used to account for funds provided by the County Boards of Hancock and McDonough Counties for general office operation and maintenance.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation -
Continued

- *Interest Fund* – Used to account for interest earned on the Distributive Fund for the mutual benefit of each school district in Hancock and McDonough Counties.
- *Regional Programs Funds* – Accounts for the cost of operating certain programs not paid for through special revenues or County funds and for interest earned on the Distributive Fund.
- *Office Administration Fund* – Accounts for indirect costs of operating programs.
- *Directory Fund* – Funded by contributions from local school districts to prepare an ROE directory.

Education Fund – The Education Fund includes proceeds from specific revenue sources (generally all State and federal grants except Supervisory Expense and ROE/ISC Operations) that are legally restricted to expenditures for specified purposes. The ROE's Education Fund accounts include the following:

- *Early Childhood Block Grant* – Used to account for State grant proceeds for the early childhood education block grant.
- *Even Start* – Used to account for federal grant proceeds for the Even Start project.
- *College Readiness Project – Math Achievement* – Used to account for local proceeds for math data collection for a college readiness study.
- *Title IV – Community Service* – Used to account for federal grant proceeds for the community service initiative under Title IV of the Elementary and Secondary Education Act.
- *Novel* – Used to account for local fees associated with the ROE's Novel project.
- *Safe to Learn* – Used to account for ISBE and local funds included in the ROE's Safe to Learn Grant program.
- *Child and Family Connections* – Used to account for a contractual agreement with the Illinois Department of Human Services to provide a caseworker for the purpose of monitoring teen parents receiving Aid to Dependent Children.
- *Hearing Aid Screening* – Used to account for a hearing screenings program funded through the Illinois Department of Public Aid.
- *Title I – Reading First Part B SEA Funds* – Used to account for federal grant proceeds used in the ROE's project to ensure that every student can read at grade level or above by the end of third grade.
- *Reading Improvement Block Grant* – Used to update and re-do the Principal's Administrator Academy Middle School reading materials and to perform trainings as a pilot for principals in west central Illinois.
- *Pioneer Grant* – Used to promote mathematics and science in the Macomb Area.
- *Truants Alternative Optional Education* – Used to account for the cost of providing tutoring services and to encourage students to stay in school.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

- *Regional Safe Schools* – Used to account for an alternative schools program of centralized instructional programs for students with specialized needs.
- *Title IV – Safe and Drug Free Formula* – Used to account for a regional, multi-district program on drug and alcohol abuser education and prevention for students throughout all grade levels (Pre-K thru 12).
- *McKinney Education for Homeless Children* – Used to account for the McKinney Education for Homeless Grant, a program to facilitate the enrollment, attendance and success of homeless youths in school.
- *Hancock/McDonough Alternative Schools* – Used to account for State revenues and expenditures paid to provide an alternative education program in Hancock and McDonough Counties.
- *ROE Technology Maintenance* – Used to account for revenues and expenditures of the ISBE Technology Maintenance grant program.
- *Family Literacy* – Used to provide literacy services to parents and children during the summer when many traditional education programs close.
- *Regional System Provider/Federal System* – Used to account for State revenues to support a regionalized system of support to assist schools in academic difficulty.
- *Truants Alternative Optional Education Program (TAOEP) Training* – Used to account for State grant proceeds expended to train individuals in Truant Alternative Education.
- *Teen Court* – Used to account for Department of Human Services funding of a project designed to help teens better understand the court system in which teens act as the jury in certain legal cases.
- *Gifted Co-Op* – Used to account for a joint agreement for providing gifted instruction and coordination to school districts within ROE #26's region.
- *Teaching American History Grant* – Used to account for federal grant proceeds received in the ROE's project to conduct nationally significant programs to improve the quality of education, assist all students to meet challenging State content standards, and contribute to the achievement of elementary and secondary students.
- *Adult Learning Resource Center* – Used to account for the ROE's subcontract with Schaumburg CUSD #54's McKinney Education for Homeless Grant.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Additionally, the ROE reports the following fund types:

Governmental

Special Revenue Funds - Special Revenue Funds are used to account for the collection and disbursement of earmarked monies. The ROE's nonmajor Special Revenue Funds include the following:

- *Institute Fund* – Used to account for examination, registration and renewal fees and to defray expenses incidental to teacher's institutes, workshops and professional meetings.
- *General Education Development (GED) Fund* – Used to account for fees and expenditures incidental to administering the high school equivalency testing program.
- *Bus Driver Training* – Used to account for fees and expenditures incidental to conducting courses of instruction for school bus drivers pursuant to the standards established by the Illinois Secretary of State.
- *Supervisory Fund* – Used to account for travel and other expenditures necessary to perform the duty of supervising the school districts in the region.

Proprietary

Proprietary funds account for activities whose costs are funded by fees and charges. These fees and charges are paid by external users for goods or services. The ROE utilizes the following proprietary fund:

- *Western Area Purchasing Co-Op* is a joint agreement used to reduce costs to school districts by purchasing various supplies in larger quantities. School districts in West-Central Illinois place orders with the Co-Op, which accumulates the orders and purchases large quantities for distribution to the districts. As noted previously, the purchasing Co-Op is a discretionary activity fund.

Additionally, the ROE reports the following nonmajor Proprietary Funds:

- *Video Co-Op* is a joint agreement administered by the ROE, which maintains an inventory of videocassette tapes. The tapes and tape players are available for check-out by each of the school districts serviced by Regional Office of Education #26. As noted previously, the VIDEO Co-Op is a discretionary activity fund.
- *Workshop Fund* is used to account for all activity for workshops managed by the ROE.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Fiduciary

Agency Funds – Fiduciary funds account for assets held by the ROE in a trustee or agency capacity. Agency funds are custodial in nature and do not involve measurement of results of operations. The ROE utilizes the following agency funds:

- *Distributive Fund* – The resources in this fund are received by and passed through the ROE to their owners. Entities whose resources are received by and passed through the distributive fund include the Western Area Career System, West Central Illinois Special Ed, and Regional Office of Education #26.
- *State Superintendent Fund* – Accounts for funds received from people applying for teaching certificates. The funds are received by the ROE which, in turn, sends them to the State Superintendent of Education on the individual's behalf. Since the State Superintendent of Education does not accept personal checks from the individuals, the ROE accepts their checks and then remits a check to the State on their behalf.
- *Regional Board of School Trustees Fund* – Accounts for the marketing and disposal of school properties belonging to local education agencies and for expenses related to detachment petitions.
- *Area III Superintendents Fund* – Accounts for all the Area III regional superintendents. Membership fees are used to provide meetings and seminars for disseminating current information on administration issues.

Budgetary Data

The grant budgets are submitted to grantor agencies for approval and funding; however, no legal budget is required or adopted. A funding agreement is entered into upon approval of the budget by the grantor. Any subsequent budget revisions must be approved by the grantor. The following accounts prepare budgets:

Early Childhood Block Grant	McKinney Education for Homeless Children
Even Start	Truant Alternative Optional Education Program Training
Title I - Reading First Part B SEA Funds	Teaching American History Grant
Truant Alternative Optional Education	
Regional Safe Schools	
Title IV – Safe and Drug Free Formula	

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – Continued

Budgets for the other funds of the ROE are not legally required and have not been prepared. Accordingly, no actual to budget comparison is included in the basic financial statements. The actual to budget comparisons are prepared on the modified accrual basis of accounting. The ROE is required to report, in its financial statements, payments made by the State of Illinois to the Teachers' Retirement System. These “on-behalf” payments of \$19,405, which were not required to be budgeted, are recorded in the Education Fund. These payments were recorded as both revenues and expenditures in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

Cash and Cash Equivalents

Cash consists of demand deposits. For purposes of the Statement of Cash Flows, the ROE considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

Inventories

Inventories are carried at the lower of cost (first-in, first-out), or market.

Due From Other Governments

Due from other governmental units and agencies is reported at gross with no allowance for uncollectibles since management feels the amount of any uncollectible accounts is immaterial.

Capital Assets

Capital assets, which include buildings, software, and furniture and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The ROE records all capital items, which are individually greater than \$500, with a useful life of greater than one year, as fixed assets.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Capital Assets - continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Depreciation is computed using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Software	3
Furniture and equipment	5
Buildings	40

Compensated Absences

Sick leave accrues to full-time, permanent employees and part-time employees who work at least 850 hours per year to specified maximums. At resignation, layoff or retirement, unused sick leave may be applied to IMRF pension service credit, however there is no compensation to the employee upon separation of service. Full-time, permanent employees are granted vacation benefits in varying amounts to specified maximums depending on tenure with the ROE.

Fund Equity

In the government-wide financial statements fund equity is displayed in three components:

Unrestricted net assets – All other net assets which do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Investment in capital assets, net of related debt – Consists of capital assets, net of accumulated depreciation.

Restricted for teacher professional development – Teacher registration fees are to be used to defray expenses connected with improving the technology necessary for the efficient processing of certificates as well as any expenses incidental to teacher institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers. All funds generated remain restricted until expended only on these activities.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designated fund balances represent tentative plans for future use of financial resources that are subject to change.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, gains, losses, and other changes in fund balance during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

Effective June 30, 2006, the ROE adopted Governmental Accounting Standards Board Statement No. 42, Accounting and Financial reporting for Impairment of Capital Assets and for Insurance Recoveries, which establishes standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries.

Effective June 30, 2006, the ROE adopted Governmental Accounting Standards Board Statement No. 44, Economic Condition Reporting: The Statistical Section, which improves the understandability and usefulness of the statistical information section.

Effective June 30, 2006, the ROE adopted Governmental Accounting Standards Board Statement No. 46, Net Assets Restricted by Enabling Legislation (an amendment of GASB Statement No. 34), which clarifies the definition of legal enforceability as it relates net assets restricted by enabling legislation and requires disclosure of the amount of net assets restricted by enabling legislation.

There was no significant impact on the ROE's financial statements as a result of adopting these statements.

2. DEPOSITS AND INVESTMENTS

The *Illinois Compiled Statutes* authorize the ROE to invest in U.S. Government, State of Illinois, and municipal securities; certificates of deposit or time savings deposits insured by the FDIC; mortgage notes, bonds, or debentures issued by the Federal Housing Administration; bonds and other obligations of the Federal National Mortgage Association; commercial paper rated within the three highest classifications by at least two standard rating services; credit union shares; and the Illinois Funds.

NOTES TO THE FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS – Continued

Bank Deposits

At June 30, 2006, the government-wide and agency fund's carrying amounts of the ROE's various bank deposits totaled \$734,175 and \$2,893, respectively. The bank balances totaled \$838,927. Included in the bank balance is \$31,710 invested in the Illinois Funds. The ROE has obtained sufficient collateral for any excess cash on deposit.

Custodial Credit Risk - Custodial credit risk for deposits with financial institutions is the risk that in the event of bank failure, the ROE's deposits may not be returned to it. The ROE does not have a formal investment policy to guard against custodial credit risk for deposits with financial institutions.

Investments

The ROE does not have a formal investment policy but requires that funds be invested solely in investments authorized by the Public Funds Investment Act, 30 ILCS 235/2.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to the investment, the ROE will not be able to recover the value of its investments that are in possession of an outside party.

Interest Rate Risk - The ROE invests solely in investments authorized by the Public Funds Investment Act, 30 ILCS 235/2.

Credit Risk - The Illinois Funds (the Fund) is an external investment pool authorized by the Illinois General Assembly. The Fund is exempt from registering with the Securities and Exchange Commission. The Fund is rated by Standard and Poors upon the request of the Fund's management. The most recent money market rating issued by Standard and Poors was AAAM. The fair value of the position in the Illinois Funds Investment Pool is the same as the value of the pool shares. Illinois State Statute provides the Illinois State Treasurer with regulatory oversight over the Pool.

NOTES TO THE FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Governmental Activities

Capital asset activity for the year ended June 30, 2006 is as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
Software and equipment	\$ 75,607	\$ 37,821	\$ 3,143	\$ 110,285
Less accumulated depreciation for:				
Software and equipment	<u>34,011</u>	<u>15,625</u>	<u>2,689</u>	<u>46,947</u>
Total capital assets, net of accumulated depreciation	<u>\$ 41,596</u>	<u>\$ 22,196</u>	<u>\$ 454</u>	<u>\$ 63,338</u>

Depreciation was charged to the Instructional Services activity.

Business-type Activities

Capital asset activity for the year ended June 30, 2006 is as follows:

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
Building	\$ 50,000	\$ -	\$ -	\$ 50,000
Software and equipment	2,750	13,624	-	16,374
Less accumulated depreciation for:				
Building	5,000	1,250	-	6,250
Software and equipment	<u>856</u>	<u>2,901</u>	<u>-</u>	<u>3,757</u>
Total capital assets, net of accumulated depreciation	<u>\$ 46,894</u>	<u>\$ 9,473</u>	<u>\$ -</u>	<u>\$ 56,367</u>

Depreciation was charged to the Other activity.

NOTES TO THE FINANCIAL STATEMENTS

4. LONG-TERM DEBT

The ROE records a liability associated with compensated absences. During the fiscal year, the amount in this account increased by \$3,649. At June 30, 2006, the balance in this account was \$21,443.

	Balance July 1, <u>2005</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2006</u>
Compensated absences	\$ 17,794	\$ 3,649	\$ -	\$ 21,443

5. EMPLOYEE'S RETIREMENT PLANS

Illinois Municipal Retirement Fund

The ROE's defined benefit pension plan, Illinois Municipal Retirement Fund (IMRF) provides retirement, disability, annual cost of living adjustments, and death benefits to plan members and beneficiaries. IMRF acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly.

IMRF issues a financial report that includes financial statements and required supplementary information. That report may be obtained at www.imrf.org/pubs/pubs_homepage.htm or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The member rate is established by State statute. The ROE is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 4.84 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005 was 5 years.

NOTES TO THE FINANCIAL STATEMENTS

5. EMPLOYEE'S RETIREMENT PLANS – Continued

For December 31, 2005, the ROE's annual pension cost of \$33,922 was equal to the ROE's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00 percent a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4 to 11.6 percent per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3 percent annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15 percent corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

**Trend Information –
IMRF**

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contribute	Net Pension Obligation
12/31/05	\$ 33,922	100%	\$0
12/31/04	35,712	100	0
12/31/03	29,447	100	0

Digest of Changes

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

The principal changes were:

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

NOTES TO THE FINANCIAL STATEMENTS

5. EMPLOYEE'S RETIREMENT PLANS – Continued

Illinois Teachers' Retirement System (TRS)

The ROE participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration. TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate through June 30, 2006 was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer.

In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The employer THIS Fund contribution was 0.6 percent during the year ended June 30, 2006, and the member THIS Fund health insurance contribution was 0.80 percent.

The State of Illinois makes contributions directly to TRS on behalf of the ROE's TRS-covered employees.

- On Behalf Contributions

The State of Illinois makes employer pension contributions on behalf of the ROE. For the year ended June 30, 2006, State of Illinois contributions were based on 7.06 percent of creditable earnings, and the ROE recognized revenue and expenditures of \$20,677 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005 and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent (\$50,435) and 13.98 percent (\$57,811), respectively.

The ROE makes three other types of employer contributions directly to TRS.

- 2.2 Formula Contributions

Employers contributed 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the years ending June 30, 2006 were \$1,697. Contributions for the years ended June 30, 2005 and June 30, 2004, were \$1,554 and \$1,575, respectively.

NOTES TO THE FINANCIAL STATEMENTS

5. EMPLOYEE'S RETIREMENT PLANS – Continued

- Federal and Trust Fund Contributions

When TRS members are paid from federal and trust funds administered by the ROE, there is a statutory requirement for the ROE to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the state contribution rate to TRS.

For the three years ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the two years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2006, there were no salaries paid from federal and trust funds. For the years ended June 30, 2005 and June 30, 2004, required ROE contributions were \$5,746 and \$5,687, respectively.

- Early Retirement Option

The ROE is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member and under which ERO program the member retires.

Under Public Act 94-0004, a "Pipeline ERO" program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1 2007. If members do not meet these conditions, they can retire under the "Modified ERO" program which requires higher member and employer contributions to TRS. Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO).

Under ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member's highest salary used in the final average salary calculation.

Under the Modified ERO, the maximum employer contribution is 117.5 percent. Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement.

For the year ended June 30, 2006, the ROE paid \$-0- to TRS for employer contributions under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2005 and June 30, 2004, the ROE made no payments under the Early Retirement Option.

NOTES TO THE FINANCIAL STATEMENTS

5. EMPLOYEE'S RETIREMENT PLANS – Continued

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

6. DUE FROM OTHER GOVERNMENTS

A summary of amounts due from other governments at June 30, 2006 follows:

Education Fund:	
Illinois Department of Human Services	\$ 3,111
U.S. Department of Education	8,641
Adult Learning Resource Center	<u>8,373</u>
Total Education Fund	<u>\$ 20,125</u>
Enterprise Fund:	
Southeastern Community Unit School District #337	\$ <u>441</u>
Agency Funds:	
Illinois State Board of Education	<u>\$ 198,729</u>
Total	<u>\$ 219,295</u>

7. DUE TO OTHER GOVERNMENTS

A summary of amounts due to other governments from agency and special revenue funds at June 30, 2006 follows:

Education Fund:	
School districts	\$ 2,340
Illinois State Board of Education	<u>1,713</u>
Total Education Funds	<u>\$ 4,053</u>
Agency Funds:	
Illinois State Board of Education	\$ 198,729
State Superintendent Fund	1,607
Regional Board of School Trustees	746
Area III Superintendents	<u>540</u>
Total Agency Funds	<u>\$ 201,622</u>
Total	<u>\$ 205,675</u>

NOTES TO THE FINANCIAL STATEMENTS

8. INTERFUND RECEIVABLES AND PAYABLES

Funds periodically borrow from other funds to cover temporary cash shortages. These loans are usually paid in full within a few months. No interest is charged on the loans outstanding. Following is a summary of the outstanding amounts due from (to) other funds as of June 30, 2006:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 111	\$ 111
Education Fund	50,699	50,059
Nonmajor Special Revenue Fund	-	640
Total	<u>\$ 50,810</u>	<u>\$ 50,810</u>

9. RISK MANAGEMENT

The ROE is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Insurance to cover these risks is provided through Hancock and McDonough Counties. Claims from these risks have not exceeded commercial insurance coverage during the current fiscal year and the previous two fiscal years.

10. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Generally accepted accounting principles require disclosure of certain information concerning individual funds (which are presented only in combination on the financial statements). Funds having deficit fund balances and funds which over-expended appropriations during the year are required to be disclosed.

The following funds had a deficit fund balance at June 30, 2006:

Education Fund:	
Hearing Aid Screening	\$ 34,026
General Fund:	
Office Administration Fund	111
General Education Development Fund	640

NOTES TO THE FINANCIAL STATEMENTS

11. ON-BEHALF SALARIES AND BENEFITS PAYMENTS

As previously noted, the State of Illinois makes employer pension contributions on behalf of the ROE. The salaries, benefits, and TRS contributions of the Regional Superintendent and the Assistant Superintendent are paid by the State of Illinois. The amounts paid by the State of Illinois are as follows:

Regional Superintendent salary	\$ 84,737
Regional Superintendent benefits (Includes State paid insurance)	18,101
Assistant Regional Superintendent salary	76,263
Assistant Regional Superintendent benefits (Includes State paid insurance)	<u>19,389</u>
Total	<u>\$ 198,490</u>

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

These awards are included in the financial statements of the General Revenue Fund as on-behalf payments. In addition to the \$198,490 above, Special Revenue Fund on-behalf payments include \$20,677 for TRS contributions (which includes \$19,405 in the Education Fund) for other employees for a total of \$219,167 for the year ended June 30, 2006.

12. LEASE OBLIGATIONS

The ROE leases classroom and office space from various locations. Future minimum rental payments under noncancellable operating leases are as follows:

2007	\$ 34,490
2008	30,000

Rent expense for the year ended June 30, 2006 was \$55,870.

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
ILLINOIS MUNICIPAL RETIREMENT FUND - REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2006

(See Accompanying Independent Auditor's Report)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/30/2005	\$ 761,625	\$ 696,166	\$ (65,459)	109.40%	\$ 700,868	0.00 %
12/31/2004	658,690	567,110	(91,580)	116.15%	594,213	0.00 %
12/31/2003	625,249	519,504	(105,745)	120.35%	592,494	0.00 %
12/31/2002	590,537	502,115	(88,422)	117.61%	562,919	0.00 %
12/31/2001	531,940	426,206	(105,734)	124.81%	571,319	0.00 %
12/31/2000	440,591	339,186	(101,405)	129.90%	541,847	0.00 %
12/31/1999	356,317	260,583	(95,734)	136.74%	467,554	0.00 %

On a market basis, the actuarial value of assets as of December 31, 2005 is \$769,713. On a market basis, the funded ratio would be 110.56%.

OTHER SUPPLEMENTARY INFORMATION

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 GENERAL FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

	County Funds	Interest Fund	Regional Programs Fund	Office Administration Fund	Directory Fund	Totals
Assets						
Cash and cash equivalents	\$ 12,476	\$ 39,709	\$ 165,052	\$ -	\$ 4,999	\$ 222,236
Accounts receivable	-	-	-	-	-	-
Due from other funds	111	-	-	-	-	111
Total Assets	\$ 12,587	\$ 39,709	\$ 165,052	\$ -	\$ 4,999	\$ 222,347
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 686	\$ -	\$ -	\$ 686
Due to other funds	-	-	-	111	-	111
Total Liabilities	\$ -	\$ -	\$ 686	\$ 111	\$ -	\$ 797
Fund Balance						
Fund balance - unreserved	12,587	39,709	164,366	(111)	4,999	221,550
Total Liabilities and Fund Balance	\$ 12,587	\$ 39,709	\$ 165,052	\$ -	\$ 4,999	\$ 222,347

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 GENERAL FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2006

	County Funds	Interest Fund	Regional Programs Fund	Office Administration Fund	Directory Fund	Totals
Revenues						
Federal sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Local sources	76,426	-	406,938	7,154	505	491,023
On-behalf payments	-	-	199,762	-	-	199,762
Total Revenues	\$ 76,426	\$ -	\$ 606,700	\$ 7,154	\$ 505	\$ 690,785
Expenditures						
Salaries	\$ 47,659	\$ -	\$ 96,400	\$ -	\$ -	\$ 144,059
Benefits	20,490	-	65,648	-	-	86,138
Purchased services	4,103	3,425	292,410	-	-	299,938
Supplies and materials	7,390	-	304	7,275	3,194	18,163
Capital outlay	491	-	492	-	-	983
On-behalf payments	-	-	199,762	-	-	199,762
Total Expenditures	\$ 80,133	\$ 3,425	\$ 655,016	\$ 7,275	\$ 3,194	\$ 749,043
Revenues over/(under) expenditures	\$ (3,707)	\$ (3,425)	\$ (48,316)	\$ (121)	\$ (2,689)	\$ (58,258)
Other Financing Sources/(Uses)						
Transfers in	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
Transfers out	-	-	-	-	-	-
	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
Net change in fund balances	\$ (3,707)	\$ (3,425)	\$ (48,315)	\$ (121)	\$ (2,689)	\$ (58,257)
Fund Balance, Beginning of year	16,294	43,134	212,681	10	7,688	279,807
Fund Balance, End of year	\$ 12,587	\$ 39,709	\$ 164,366	\$ (111)	\$ 4,999	\$ 221,550

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

	Early Childhood Block Grant	Even Start	College Readiness Project - Math Achievement	Title IV - Community Service	Novel
Assets					
Cash and cash equivalents	\$ 13,554	\$ 21,456	\$ -	\$ -	\$ 33,068
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total Assets	<u>\$ 13,554</u>	<u>\$ 21,456</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,068</u>
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	-
Deferred revenue	13,288	4,115	-	-	-
Total Liabilities	<u>\$ 13,288</u>	<u>\$ 4,115</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund Balance (Deficit)					
Unreserved	\$ 266	\$ 17,341	\$ -	\$ -	\$ 33,068
Designated	-	-	-	-	-
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	<u>\$ 266</u>	<u>\$ 17,341</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,068</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 13,554</u>	<u>\$ 21,456</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,068</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

	Safe to Learn	Child & Family Connections	Hearing Aid Screening	Title I -	
				Reading First Part B SEA Funds	Reading Improvement Block Grant
Assets					
Cash and cash equivalents	\$ 2,340	\$ 14,548	\$ -	\$ -	\$ -
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total Assets	\$ 2,340	\$ 14,548	\$ -	\$ -	\$ -
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ 2,812	\$ -	\$ -	\$ -
Due to other funds	-	-	34,026	-	-
Due to other governments	2,340	-	-	-	-
Deferred revenue	-	10,864	-	-	-
Total Liabilities	\$ 2,340	\$ 13,676	\$ 34,026	\$ -	\$ -
Fund Balance (Deficit)					
Unreserved	\$ -	\$ 872	\$ (34,026)	\$ -	\$ -
Designated	-	-	-	-	-
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	\$ -	\$ 872	\$ (34,026)	\$ -	\$ -
Total Liabilities and Fund Balance (Deficit)	\$ 2,340	\$ 14,548	\$ -	\$ -	\$ -

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

	Pioneer Grant	Truants Alternative Optional Education	Regional Safe Schools	Title IV - Safe and Drug Free Formula	McKinney Education for Homeless Children
Assets					
Cash and cash equivalents	\$ 16,832	\$ 11,183	\$ 8,630	\$ 1,569	\$ 9,965
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total Assets	\$ 16,832	\$ 11,183	\$ 8,630	\$ 1,569	\$ 9,965
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 8,187
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	1,645
Deferred revenue	16,832	11,183	8,520	1,399	-
Total Liabilities	\$ 16,832	\$ 11,183	\$ 8,520	\$ 1,399	\$ 9,832
Fund Balance (Deficit)					
Unreserved	\$ -	\$ -	\$ 110	\$ 170	\$ 133
Designated	-	-	-	-	-
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	\$ -	\$ -	\$ 110	\$ 170	\$ 133
Total Liabilities and Fund Balance (Deficit)	\$ 16,832	\$ 11,183	\$ 8,630	\$ 1,569	\$ 9,965

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

	Hancock/ McDonough Alternative Schools	ROE Technology Maintenance	Family Literacy	Regional System Provider/ Federal System	Truants Alternative Optional Education Program Training
Assets					
Cash and cash equivalents	\$ 255,674	\$ 3,416	\$ -	\$ 15,545	\$ 26,305
Due from other funds	50,699	-	-	-	-
Due from other governments	-	-	-	-	-
Total Assets	\$ 306,373	\$ 3,416	\$ -	\$ 15,545	\$ 26,305
Liabilities and Fund Balance					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	-	-	-	-	68
Deferred revenue	-	-	-	15,545	25,867
Total Liabilities	\$ -	\$ -	\$ -	\$ 15,545	\$ 25,935
Fund Balance (Deficit)					
Unreserved	\$ 306,373	\$ 3,416	\$ -	\$ -	\$ 370
Designated	-	-	-	-	-
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	\$ 306,373	\$ 3,416	\$ -	\$ -	\$ 370
Total Liabilities and Fund Balance (Deficit)	\$ 306,373	\$ 3,416	\$ -	\$ 15,545	\$ 26,305

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF ACCOUNTS
 JUNE 30, 2006

Assets	Teen Court	Gifted Co-Op	Teaching American History Grant	Adult Learning Resource Center	Totals
Cash and cash equivalents	\$ -	\$ 3,668	\$ -	\$ -	\$ 437,753
Due from other funds	-	-	-	-	50,699
Due from other governments	3,111	-	8,641	8,373	20,125
Total Assets	\$ 3,111	\$ 3,668	\$ 8,641	\$ 8,373	\$ 508,577
Liabilities and Fund Balance					
Liabilities					
Accounts payable	-	-	-	1,188	12,187
Due to other funds	3,111	-	8,641	4,281	50,059
Due to other governments	-	-	-	-	4,053
Deferred revenue	-	-	-	-	107,613
Total Liabilities	\$ 3,111	\$ -	\$ 8,641	\$ 5,469	\$ 173,912
Fund Balance (Deficit)					
Unreserved					
Designated	-	-	-	2,904	330,997
Undesignated	-	3,668	-	-	3,668
Total Fund Balance (Deficit)	\$ -	\$ 3,668	\$ -	\$ 2,904	\$ 334,665
Total Liabilities and Fund Balance (Deficit)					
Fund Balance (Deficit)	\$ 3,111	\$ 3,668	\$ 8,641	\$ 8,373	\$ 508,577

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Early Childhood Block Grant	Even Start	College Readiness Project - Math Achievement	Title IV - Community Service	Novel
Revenues					
State sources	\$ 207,331	\$ -	\$ -	\$ -	\$ -
Federal sources	-	178,294	-	-	-
Local sources	266	16,770	7,700	-	16,430
On-behalf payments	-	-	-	-	-
Total Revenues	\$ 207,597	\$ 195,064	\$ 7,700	\$ -	\$ 16,430
Expenditures					
Salaries	\$ 116,822	\$ 106,421	\$ -	\$ -	\$ -
Benefits	34,758	34,184	-	-	-
Purchased services	43,413	31,395	7,700	-	12,511
Supplies and materials	12,338	6,883	-	-	-
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	-	-	-	-	-
On-behalf payments	-	-	-	-	-
Total Expenditures	\$ 207,331	\$ 178,883	\$ 7,700	\$ -	\$ 12,511
Revenues over (under) expenditures	\$ 266	\$ 16,181	\$ -	\$ -	\$ 3,919
Other Financing Sources/(Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	-
	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 266	\$ 16,181	\$ -	\$ -	\$ 3,919
Fund Balance (Deficit), Beginning of year	-	1,160	-	-	29,149
Fund Balance (Deficit), End of year	\$ 266	\$ 17,341	\$ -	\$ -	\$ 33,068

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Safe to Learn	Child & Family Connections	Hearing Aid Screening	Title I -	
				Reading First Part B SEA Funds	Reading Improvement Block Grant
Revenues					
State sources	\$ -	\$ 340,013	\$ -	\$ -	\$ -
Federal sources	-	218,014	-	12,460	-
Local sources	-	536	-	-	-
On-behalf payments	-	-	-	-	-
Total Revenues	\$ -	\$ 558,563	\$ -	\$ 12,460	\$ -
Expenditures					
Salaries	\$ -	\$ 292,635	\$ -	\$ 200	\$ -
Benefits	-	95,574	-	-	-
Purchased services	-	125,748	-	11,720	-
Supplies and materials	-	18,817	-	540	-
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	-	25,253	-	-	-
On-behalf payments	-	-	-	-	-
Total Expenditures	\$ -	\$ 558,027	\$ -	\$ 12,460	\$ -
Revenues over (under) expenditures	\$ -	\$ 536	\$ -	\$ -	\$ -
Other Financing Sources/(Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	(1)
	\$ -	\$ -	\$ -	\$ -	\$ (1)
Net change in fund balances	\$ -	\$ 536	\$ -	\$ -	\$ (1)
Fund Balance (Deficit), Beginning of year	-	336	(34,026)	-	1
Fund Balance (Deficit), End of year	\$ -	\$ 872	\$ (34,026)	\$ -	\$ -

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Pioneer Grant	Truants Alternative Optional Education	Regional Safe Schools	Title IV - Safe and Drug Free Formula	McKinney Education for Homeless Children
Revenues					
State sources	\$ -	\$ 123,261	\$ 86,237	\$ -	\$ -
Federal sources	-	-	-	37,867	284,818
Local sources	9,417	-	110	170	145
On-behalf payments	-	2,111	4,308	-	3,415
Total Revenues	\$ 9,417	\$ 125,372	\$ 90,655	\$ 38,037	\$ 288,378
Expenditures					
Salaries	\$ -	\$ 71,210	\$ 53,055	\$ 6,577	\$ 46,447
Benefits	11	16,271	18,287	-	17,743
Purchased services	9,406	35,706	14,089	31,640	14,600
Supplies and materials	-	74	806	886	7,645
Transfers - payments to other governmental units	-	-	-	-	195,850
Capital outlay	-	-	-	-	2,545
On-behalf payments	-	2,111	4,308	-	3,415
Total Expenditures	\$ 9,417	\$ 125,372	\$ 90,545	\$ 39,103	\$ 288,245
Revenues over (under) expenditures	\$ -	\$ -	\$ 110	\$ (1,066)	\$ 133
Other Financing Sources/(Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	-
Net change in fund balances	\$ -	\$ -	\$ 110	\$ (1,066)	\$ 133
Fund Balance (Deficit), Beginning of year	-	-	-	1,236	-
Fund Balance (Deficit), End of year	\$ -	\$ -	\$ 110	\$ 170	\$ 133

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Hancock/ McDonough Alternative Schools	ROE Technology Maintenance	Family Literacy	Regional System Provider/ Federal System	Truants Alternative Optional Education Program Training
Revenues					
State sources	\$ 204,649	\$ -	\$ 7,130	\$ 19,565	\$ 151,736
Federal sources	-	-	-	-	-
Local sources	4,212	-	-	-	320
On-behalf payments	8,140	-	-	1,431	-
Total Revenues	\$ 217,001	\$ -	\$ 7,130	\$ 20,996	\$ 152,056
Expenditures					
Salaries	\$ 119,396	\$ -	\$ 7,160	\$ 12,759	\$ 59,213
Benefits	50,476	-	22	668	12,998
Purchased services	51,866	-	-	5,428	77,489
Supplies and materials	8,880	-	(52)	710	2,036
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	3,881	-	-	-	-
On-behalf payments	8,140	-	-	1,431	-
Total Expenditures	\$ 242,639	\$ -	\$ 7,130	\$ 20,996	\$ 151,736
Revenues over (under) expenditures	\$ (25,638)	\$ -	\$ -	\$ -	\$ 320
Other Financing Sources/(Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ (25,638)	\$ -	\$ -	\$ -	\$ 320
Fund Balance (Deficit), Beginning of year	332,011	3,416	-	-	50
Fund Balance (Deficit), End of year	\$ 306,373	\$ 3,416	\$ -	\$ -	\$ 370

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 EDUCATION FUND ACCOUNTS
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 FOR THE YEAR ENDED JUNE 30, 2006

	Teen Court	Gifted Co-Op	Teaching American History Grant	Adult Learning Resource Center	Totals
Revenues					
State sources	\$ 41,200	\$ -	\$ -	\$ -	\$ 1,181,122
Federal sources	-	-	126,383	39,802	897,638
Local sources	-	-	-	216	56,292
On-behalf payments	-	-	-	-	19,405
Total Revenues	\$ 41,200	\$ -	\$ 126,383	\$ 40,018	\$ 2,154,457
Expenditures					
Salaries	\$ 31,454	\$ -	\$ 30,140	\$ 21,929	\$ 975,418
Benefits	4,321	-	1,327	4,119	290,759
Purchased services	3,335	-	92,075	9,477	577,598
Supplies and materials	2,090	-	1,437	522	63,612
Transfers - payments to other governmental units	-	-	-	-	195,850
Capital outlay	-	-	1,404	3,755	36,838
On-behalf payments	-	-	-	-	19,405
Total Expenditures	\$ 41,200	\$ -	\$ 126,383	\$ 39,802	\$ 2,159,480
Revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ 216	\$ (5,023)
Other Financing Sources/(Uses)					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-	(1)
	\$ -	\$ -	\$ -	\$ -	(1)
Net change in fund balances	\$ -	\$ -	\$ -	\$ 216	\$ (5,024)
Fund Balance (Deficit), Beginning of year	-	3,668	-	2,688	339,689
Fund Balance (Deficit), End of year	\$ -	\$ 3,668	\$ -	\$ 2,904	\$ 334,665

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 EARLY CHILDHOOD BLOCK GRANT
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
State sources	\$ 188,596	\$ 207,331	\$ 18,735
Local	-	266	266
Total Revenues	<u>\$ 188,596</u>	<u>\$ 207,597</u>	<u>\$ 19,001</u>
Expenditures			
Salaries	\$ 108,849	\$ 116,822	\$ (7,973)
Benefits	24,240	34,758	(10,518)
Purchased/contracted services	43,507	43,413	94
Materials and supplies	12,000	12,338	(338)
Total Expenditures	<u>\$ 188,596</u>	<u>\$ 207,331</u>	<u>\$ (18,735)</u>
Net change in fund balances	<u>\$ -</u>	\$ 266	<u>\$ 266</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ 266</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 EVEN START
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Federal sources	\$ 180,000	\$ 178,294	\$ (1,706)
Local	-	16,770	16,770
Total Revenues	<u>\$ 180,000</u>	<u>\$ 195,064</u>	<u>\$ 15,064</u>
Expenditures			
Salaries	\$ 111,280	\$ 106,421	\$ 4,859
Benefits	29,399	34,184	(4,785)
Purchased/contracted services	31,321	31,395	(74)
Materials and supplies	8,000	6,883	1,117
Total Expenditures	<u>\$ 180,000</u>	<u>\$ 178,883</u>	<u>\$ 1,117</u>
Net change in fund balances	<u>\$ -</u>	\$ 16,181	<u>\$ 16,181</u>
Fund Balance, Beginning of year		<u>1,160</u>	
Fund Balance, End of year		<u>\$ 17,341</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 TITLE I - READING FIRST PART B SEA FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 25,594	\$ 12,460	\$ (13,134)
Total Revenues	<u>\$ 25,594</u>	<u>\$ 12,460</u>	<u>\$ (13,134)</u>
Expenditures			
Salaries	\$ 8,570	\$ 200	\$ 8,370
Benefits	150	-	150
Purchased/contracted services	15,494	11,720	3,774
Materials and supplies	1,380	540	840
Total Expenditures	<u>\$ 25,594</u>	<u>\$ 12,460</u>	<u>\$ 13,134</u>
Net change in fund balances	<u>\$ -</u>	\$ -	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 TRUANTS ALTERNATIVE OPTIONAL EDUCATION
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 123,072	\$ 123,261	\$ 189
On-behalf payments	-	2,111	2,111
Total Revenues	<u>\$ 123,072</u>	<u>\$ 125,372</u>	<u>\$ 2,300</u>
Expenditures			
Salaries	\$ 69,556	\$ 71,210	\$ (1,654)
Benefits	19,141	16,271	2,870
Purchased/contracted services	34,375	35,706	(1,331)
Materials and supplies	-	74	(74)
On-behalf payments	-	2,111	(2,111)
Total Expenditures	<u>\$ 123,072</u>	<u>\$ 125,372</u>	<u>\$ (2,300)</u>
Net change in fund balances	<u>\$ -</u>	\$ -	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 REGIONAL SAFE SCHOOLS
 FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenues			
State sources	\$ 89,377	\$ 86,237	\$ (3,140)
Local	-	110	110
On-behalf payments	-	4,308	4,308
Total Revenues	<u>\$ 89,377</u>	<u>\$ 90,655</u>	<u>\$ 1,278</u>
Expenditures			
Salaries	\$ 54,303	\$ 53,055	\$ 1,248
Benefits	18,200	18,287	(87)
Purchased/contracted services	14,160	14,089	71
Materials and supplies	2,714	806	1,908
On-behalf payments	-	4,308	(4,308)
Total Expenditures	<u>\$ 89,377</u>	<u>\$ 90,545</u>	<u>\$ (1,168)</u>
Net change in fund balances	<u>\$ -</u>	\$ 110	<u>\$ 110</u>
Fund Balance, Beginning of year		-	
Fund Balance, End of year		<u>\$ 110</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 TITLE IV - SAFE AND DRUG FREE FORMULA
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Federal sources	\$ 33,793	\$ 37,867	\$ 4,074
Local	-	170	170
Total Revenues	<u>\$ 33,793</u>	<u>\$ 38,037</u>	<u>\$ 4,244</u>
Expenditures			
Salaries	\$ 5,435	\$ 6,577	\$ (1,142)
Purchased/contracted services	26,358	31,640	(5,282)
Materials and supplies	2,000	886	1,114
Total Expenditures	<u>\$ 33,793</u>	<u>\$ 39,103</u>	<u>\$ (5,310)</u>
Net change in fund balances	<u>\$ -</u>	\$ (1,066)	<u>\$ (1,066)</u>
Fund Balance, Beginning of year		<u>1,236</u>	
Fund Balance, End of year		<u>\$ 170</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 MCKINNEY EDUCATION FOR HOMELESS CHILDREN
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 275,513	\$ 284,818	\$ 9,305
Local sources	-	145	145
On-behalf payments	-	3,415	3,415
Total Revenues	<u>\$ 275,513</u>	<u>\$ 288,378</u>	<u>\$ 12,865</u>
Expenditures			
Salaries	\$ 46,072	\$ 46,447	\$ (375)
Benefits	11,624	17,743	(6,119)
Purchased/contracted services	11,754	14,600	(2,846)
Materials and supplies	6,213	7,645	(1,432)
Capital outlay	3,000	2,545	455
Transfers - payments to other governmental units	196,850	195,850	1,000
On-behalf payments	-	3,415	(3,415)
Total Expenditures	<u>\$ 275,513</u>	<u>\$ 288,245</u>	<u>\$ (12,732)</u>
Net change in fund balances	<u>\$ -</u>	\$ 133	<u>\$ 133</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ 133</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 TRUANTS ALTERNATIVE OPTIONAL EDUCATION PROGRAM TRAINING
 FOR THE YEAR ENDED JUNE 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 157,920	\$ 151,736	\$ (6,184)
Local sources	-	320	320
Total Revenues	<u>\$ 157,920</u>	<u>\$ 152,056</u>	<u>\$ (5,864)</u>
Expenditures			
Salaries	\$ 64,130	\$ 59,213	\$ 4,917
Benefits	13,012	12,998	14
Purchased/contracted services	80,278	77,489	2,789
Materials and supplies	500	2,036	(1,536)
Total Expenditures	<u>\$ 157,920</u>	<u>\$ 151,736</u>	<u>\$ 6,184</u>
Net change in fund balances	<u>\$ -</u>	\$ 320	<u>\$ 320</u>
Fund Balance, Beginning of year		<u>50</u>	
Fund Balance, End of year		<u>\$ 370</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 TEACHING AMERICAN HISTORY GRANT
 FOR THE YEAR ENDED JUNE 30, 2006

	Budget	Actual	Variance Positive (Negative)
Revenues			
Federal sources	\$ 193,913	\$ 126,383	\$ (67,530)
Total Revenues	\$ 193,913	\$ 126,383	\$ (67,530)
Expenditures			
Salaries	\$ 42,000	\$ 30,140	\$ 11,860
Benefits	8,000	1,327	6,673
Purchased/contracted services	138,913	92,075	46,838
Materials and supplies	5,000	1,437	3,563
Capital outlay	-	1,404	(1,404)
Total Expenditures	\$ 193,913	\$ 126,383	\$ 67,530
Net change in fund balances	\$ -	\$ -	\$ -
Fund Balance, Beginning of year		-	
Fund Balance, End of year		\$ -	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006

	Institute Fund	General Education Development Fund	Bus Driver Training	Supervisory Fund	Totals
Assets					
Cash and cash equivalents	\$ 52,897	\$ -	\$ 3,202	\$ -	\$ 56,099
Total Assets	<u>\$ 52,897</u>	<u>\$ -</u>	<u>\$ 3,202</u>	<u>\$ -</u>	<u>\$ 56,099</u>
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ -	\$ 640	\$ -	\$ -	\$ 640
Deferred revenue	26,624	-	-	-	26,624
Total Liabilities	<u>\$ 26,624</u>	<u>\$ 640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,264</u>
Fund Balance (Deficit)					
Fund Balance					
Unreserved					
Designated	\$ 26,273	\$ (640)	\$ 3,202	\$ -	\$ 28,835
Total Fund Balance (Deficit)	<u>\$ 26,273</u>	<u>\$ (640)</u>	<u>\$ 3,202</u>	<u>\$ -</u>	<u>\$ 28,835</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 52,897</u>	<u>\$ -</u>	<u>\$ 3,202</u>	<u>\$ -</u>	<u>\$ 56,099</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 NONMAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 FOR THE YEAR ENDED JUNE 30, 2006

	Institute Fund	General Education Development Fund	Bus Driver Training	Supervisory Fund	Totals
Revenues					
State sources	\$ -	\$ -	\$ 600	\$ 2,000	\$ 2,600
Local sources	11,628	2,842	760	-	15,230
Total Revenues	\$ 11,628	\$ 2,842	\$ 1,360	\$ 2,000	\$ 17,830
Expenditures					
Purchased services	\$ 6,457	\$ 2,272	\$ 2,187	\$ 2,000	\$ 12,916
Supplies and material	1,017	119	118	-	1,254
Total Expenditures	\$ 7,474	\$ 2,391	\$ 2,305	\$ 2,000	\$ 14,170
Net change in fund balance	\$ 4,154	\$ 451	\$ (945)	\$ -	\$ 3,660
Fund Balance (Deficit), Beginning of year	22,119	(1,091)	4,147	-	25,175
Fund Balance (Deficit), End of year	\$ 26,273	\$ (640)	\$ 3,202	\$ -	\$ 28,835

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
JUNE 30, 2006

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Assets			
Current assets			
Cash and cash equivalents	\$ 4,736	\$ 6,953	\$ 11,689
Due from other governments	441	-	441
Total current assets	<u>\$ 5,177</u>	<u>\$ 6,953</u>	<u>\$ 12,130</u>
Noncurrent assets			
Equipment, net	<u>438</u>	<u>9,353</u>	<u>9,791</u>
Total Assets	<u>\$ 5,615</u>	<u>\$ 16,306</u>	<u>\$ 21,921</u>
Liabilities and Net Assets			
Liabilities			
Total Liabilities	\$ -	\$ -	\$ -
Net Assets			
Invested in capital assets, net of related debt	438	9,353	9,791
Unrestricted	<u>5,177</u>	<u>6,953</u>	<u>12,130</u>
Total Net Assets	<u>\$ 5,615</u>	<u>\$ 16,306</u>	<u>\$ 21,921</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Operating Revenues			
Charges for services	\$ 5,374	\$ 4,171	\$ 9,545
Operating Expenses			
Purchased services	\$ 4,089	\$ -	\$ 4,089
Materials and supplies	3,151	701	3,852
Depreciation	175	1,871	2,046
Total Operating Expenses	<u>\$ 7,415</u>	<u>\$ 2,572</u>	<u>\$ 9,987</u>
Change in Net Assets	\$ (2,041)	\$ 1,599	\$ (442)
Net Assets, Beginning of year	<u>7,656</u>	<u>14,707</u>	<u>22,363</u>
Net Assets, End of year	<u><u>\$ 5,615</u></u>	<u><u>\$ 16,306</u></u>	<u><u>\$ 21,921</u></u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Cash Flows from Operating Activities:			
Receipts from customers	\$ 5,439	\$ 4,171	\$ 9,610
Payments to suppliers and providers of goods and services	(7,240)	(701)	(7,941)
Net cash provided (used) by operating activities	<u>\$ (1,801)</u>	<u>\$ 3,470</u>	<u>\$ 1,669</u>
Cash Flows from Capital and Related Financing Activities:			
Purchases of capital assets	\$ -	\$ (11,224)	\$ (11,224)
Net cash used by capital and related financing activities	<u>\$ -</u>	<u>\$ (11,224)</u>	<u>\$ (11,224)</u>
Net decrease in cash and cash equivalents	\$ (1,801)	\$ (7,754)	\$ (9,555)
Cash and cash equivalents - beginning of year	<u>6,537</u>	<u>14,707</u>	<u>21,244</u>
Cash and cash equivalents - end of year	<u>\$ 4,736</u>	<u>\$ 6,953</u>	<u>\$ 11,689</u>
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ (2,041)	\$ 1,599	\$ (442)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	175	1,871	2,046
Decrease in assets:			
Due from other governments	65	-	65
Net cash provided (used) by operating activities	<u>\$ (1,801)</u>	<u>\$ 3,470</u>	<u>\$ 1,669</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 ALL AGENCY FUNDS
 JUNE 30, 2006

	Distributive Fund	State Superintendent Fund	Regional Board of School Trustees Fund	Area III Superintendents Fund	Totals
Assets					
Cash and cash equivalents	\$ -	\$ 1,607	\$ 746	\$ 540	\$ 2,893
Due from other governments	198,729	-	-	-	198,729
Total Assets	<u>\$ 198,729</u>	<u>\$ 1,607</u>	<u>\$ 746</u>	<u>\$ 540</u>	<u>\$ 201,622</u>
Liabilities					
Due to other governments	\$ 198,729	\$ 1,607	\$ 746	\$ 540	\$ 201,622
Total Liabilities	<u>\$ 198,729</u>	<u>\$ 1,607</u>	<u>\$ 746</u>	<u>\$ 540</u>	<u>\$ 201,622</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2006

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Distributive Fund:				
Assets				
Cash and cash equivalents	\$ -	\$ 6,541,201	\$ (6,541,201)	\$ -
Due from ISBE	483	198,729	(483)	198,729
Total Assets	<u>\$ 483</u>	<u>\$ 6,739,930</u>	<u>\$ (6,541,684)</u>	<u>\$ 198,729</u>
Liabilities				
Due to other funds	\$ -	\$ 6,541,201	\$ (6,541,201)	\$ -
Due to other agencies	483	198,729	(483)	198,729
Total Liabilities	<u>\$ 483</u>	<u>\$ 6,739,930</u>	<u>\$ (6,541,684)</u>	<u>\$ 198,729</u>
State Superintendent Fund:				
Assets				
Cash and cash equivalents	\$ 1,190	\$ 3,799	\$ (3,382)	\$ 1,607
Total Assets	<u>\$ 1,190</u>	<u>\$ 3,799</u>	<u>\$ (3,382)</u>	<u>\$ 1,607</u>
Liabilities				
Due to other agencies	\$ 1,190	\$ 3,799	\$ (3,382)	\$ 1,607
Total Liabilities	<u>\$ 1,190</u>	<u>\$ 3,799</u>	<u>\$ (3,382)</u>	<u>\$ 1,607</u>
Regional Board of School Trustees Fund:				
Assets				
Cash and cash equivalents	\$ 1,914	\$ 567	\$ (1,735)	\$ 746
Total Assets	<u>\$ 1,914</u>	<u>\$ 567</u>	<u>\$ (1,735)</u>	<u>\$ 746</u>
Liabilities				
Due to other agencies	\$ 1,914	\$ 567	\$ (1,735)	\$ 746
Total Liabilities	<u>\$ 1,914</u>	<u>\$ 567</u>	<u>\$ (1,735)</u>	<u>\$ 746</u>
Area III Superintendents Fund:				
Assets				
Cash and cash equivalents	\$ 369	\$ 2,500	\$ (2,329)	\$ 540
Total Assets	<u>\$ 369</u>	<u>\$ 2,500</u>	<u>\$ (2,329)</u>	<u>\$ 540</u>
Liabilities				
Due to other agencies	\$ 369	\$ 2,500	\$ (2,329)	\$ 540
Total Liabilities	<u>\$ 369</u>	<u>\$ 2,500</u>	<u>\$ (2,329)</u>	<u>\$ 540</u>
Totals:				
Assets				
Cash and cash equivalents	\$ 3,473	\$ 6,548,067	\$ (6,548,647)	\$ 2,893
Due from ISBE	483	198,729	(483)	198,729
Total Assets	<u>\$ 3,956</u>	<u>\$ 6,746,796</u>	<u>\$ (6,549,130)</u>	<u>\$ 201,622</u>
Liabilities				
Due to other funds	\$ -	\$ 6,541,201	\$ (6,541,201)	\$ -
Due to other agencies	3,956	205,595	(7,929)	201,622
Total Liabilities	<u>\$ 3,956</u>	<u>\$ 6,746,796</u>	<u>\$ (6,549,130)</u>	<u>\$ 201,622</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURERS AND OTHERS
 FOR THE YEAR ENDED JUNE 30, 2006

		Western Area Career System	West Central Illinois Special Ed	ROE 26	Totals
Distributive Fund Interest	N/A	\$ -	-	-	-
General State Aid	3001	-	-	204,649	204,649
Reorganization Incentive - Feasibility Study	3021	-	-	6,500	6,500
Special Ed Personnel	3110	-	596,186	-	596,186
Voc Ed-Sec Prog Imp	3220	495,079	-	-	495,079
Voc Ed-Ag Education	3235	43,776	-	-	43,776
State Free Lunch & Breakfast	3360	-	1,408	-	1,408
School Breakfast Incentive	3365	-	6	-	6
ROE School Bus Driver Training	3520	-	-	600	600
Truants Alternative/Optional Ed	3695	-	-	280,992	280,992
Regional Safe Schools	3696	-	-	89,377	89,377
Early Childhood Block Grant	3705	-	-	205,742	205,742
Supervisory	3745	-	-	2,000	2,000
National School Lunch (10.555)	4210	-	13,025	-	13,025
School Breakfast Program	4220	-	7,440	-	7,440
Even Start	4335	-	-	180,000	180,000
Title I - Reading First Part B SEA (84.357A)	4337	-	-	25,594	25,594
Title IV Safe & Drug Free (84.186A)	4400	-	-	33,793	33,793
Special Ed Pre School (84.173A)	4600	-	107,659	-	107,659
Special Ed IDEA Flow-Thru	4620	-	3,800,520	-	3,800,520
Voc Ed Perkins Title IIC (84.048A)	4745	161,243	-	-	161,243
McKinney Ed for Homeless (84.196A)	4920	-	-	285,612	285,612
		<u>\$ 700,098</u>	<u>\$ 4,526,244</u>	<u>\$ 1,314,859</u>	<u>\$ 6,541,201</u>

See accompanying Independent Auditors' Report.

FEDERAL COMPLIANCE SECTION

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2006

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Number	Expenditures
U.S. Department of Education			
Teaching American History	84.215X	S215X010107	\$ 126,383
<i>Passed through Illinois State Board of Education (ISBE)</i>			
Title IV - Safe and Drug Free Formula		06-4400-00	\$ 32,394
Title IV - Safe and Drug Free Formula		05-4400-00	5,473
Total Title IV - Safe and Drug Free Formula	84.186A		<u>\$ 37,867</u>
(M) McKinney Education for Homeless Children		06-4920-00	\$ 275,513
(M) McKinney Education for Homeless Children		05-4920-00	9,305
<i>Passed through Adult Learning Resource Center</i>			
McKinney Education for Homeless Children		06-4920-00	36,838
McKinney Education for Homeless Children		05-4920-00	2,964
Total McKinney Education for Homeless Children	84.196A		<u>\$ 324,620</u>
<i>Passed through Illinois State Board of Education (ISBE)</i>			
Even Start		06-4335-00	\$ 175,885
Even Start		05-4335-00	2,409
Total Even Start	84.213C		<u>\$ 178,294</u>
<i>Passed through Two Rivers Professional Development Center</i>			
Title I - Reading First Part B SEA Funds	84.357A	05-4337-02	<u>\$ 12,460</u>
<i>Passed through Illinois Department of Human Services (IDHS)</i>			
Special Education - Grants for Infants and Families with Disabilities		511G5167721	\$ 15,059
Special Education - Grants for Infants and Families with Disabilities		611G6167721	202,955
(M) Total Special Education - Grants for Infants and Families with Disabilities	84.181		<u>\$ 218,014</u>
Total Federal Awards			<u><u>\$ 897,638</u></u>

(M) audited as a major program

The accompanying notes are an integral part of this schedule.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION #26
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hancock/McDonough Regional Office of Education #26 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in conformance 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.

2. DESCRIPTIONS OF FEDERAL PROGRAMS AUDITED AS A MAJOR PROGRAM

The major federal programs of the Hancock/McDonough Regional Office of Education #26 are the Special Education – Grants for Infants and Families with Disabilities (CFDA # 84.181) and the McKinney Education for Homeless Children (CFDA # 84.196A). These funds are used to assist in providing early intervention services for infants and toddlers with disabilities and their families and to ensure that homeless children and youth have equal access to the same free, appropriate public education as other children, respectively.

3. SUBRECIPIENTS

Of the expenditures in this schedule, the Hancock/McDonough Regional Office of Education #26 provided awards to subrecipients in the amount of \$197,850 under the McKinney Education for Homeless Children program.

4. NON-MONETARY FEDERAL AWARDS

The Hancock/McDonough Regional Office of Education #26 did not receive any non-monetary Federal awards.

5. INSURANCE

The Hancock/McDonough Regional Office of Education #26 did not receive any Federal awards involving insurance with continuing compliance requirements.

6. LOANS AND LOAN GUARANTEES

The Hancock/McDonough Regional Office of Education #26 did not receive any Federal awards involving loans or loan guarantees with continuing compliance requirements.