

State of Illinois
BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
FINANCIAL AUDIT
(In Accordance with the Single Audit Act and
OMB Circular A-133)
For the Year Ended June 30, 2007

Performed as Special Assistant Auditors
for the Office of the Auditor General

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
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 JUNE 30, 2007

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REGIONAL OFFICE OF EDUCATION #3

OFFICIALS

Regional Superintendent
(Current and during the audit period)

Mr. Mark A. Drone

Assistant Regional Superintendent
(Current and during the audit period)

Ms. Julie R. Wollerman

Offices are located at:

Vandalia Office
300 South Seventh
Vandalia, IL 62471

Effingham Office
Effingham County Building
101 N. 4th, Room 204
Effingham, IL 62401

Greenville Office
Bond County Courthouse
200 W. College
Greenville, IL 62246

REGIONAL OFFICE OF EDUCATION #3

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	4	2
Repeated audit findings	1	1
Prior recommendations implemented or not repeated	1	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>
FINDINGS (GOVERNMENT AUDITING STANDARDS)		
07-1	12a	Controls Over Financial Statement Preparation
07-2	12c	Internal Control over Disbursements and Purchases
07-3	12d	Inadequate Accounting Software and Internal Controls
07-4	12f	Capitalization Policy

FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)

NONE

PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

06-1

15

Controls Over Compliance with Laws and
Regulations

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

NONE

INFORMAL EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at an informal exit conference on August 23, 2007. Attending were Mark Drone, Regional Superintendent, and Timothy G. Bryan, Partner, Kemper CPA Group LLP. Responses to the recommendations were provided by Mark Drone, Regional Superintendent.

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the Bond, Fayette, Effingham Counties Regional Office of Education #3 was performed by Kemper CPA Group LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Regional Office of Education #3'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 Bond, Fayette, Effingham Counties Regional Office of Education #3, as of and for the year ended June 30, 2007, which collectively comprise the Regional Office of Education #3's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regional Office of Education #3'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 Regional Office of Education #3, as of June 30, 2007, 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 March 10, 2008, on our consideration of the Regional Office of Education #3's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Illinois Municipal Retirement Fund Schedule of Funding Progress on pages 16 and page 45 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 Regional Office of Education #3's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the Schedule of Disbursements to School District Treasurers and Other Entities 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 *Guidelines to Auditing and Reporting for a Regional Office of Education*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, Schedule of Disbursements to School District Treasurers and Other Entities, 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.

Kemper CPA Group LLP

Certified Public Accountants and Consultants

Evansville, Indiana
March 10, 2008

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 Regional Office of Education #3, as of and for the year ended June 30, 2007, which collectively comprise the Regional Office of Education #3's basic financial statements and have issued our report thereon dated March 10, 2008. 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 Regional Office of Education #3's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Regional Office of Education #3's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Regional Office of Education #3's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Regional Office of Education #3's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Regional Office of Education #3's financial statements that is more than inconsequential will not be

prevented or detected by the Regional Office of Education #3's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting, 07-1, 07-2, 07-3, and 07-4.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Regional Office of Education #3's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Regional Office of Education #3'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*.

Regional Office of Education #3's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Regional Office of Education #3's responses and, accordingly, we express no opinion on them.

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

Kemper CPA Group LLP

Certified Public Accountants and Consultants

Evansville, Indiana
March 10, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE FOR EACH
PROGRAM DETERMINED TO BE MAJOR BY THE ILLINOIS STATE BOARD OF EDUCATION
IN THEIR MONITORING OF FEDERAL PROGRAMS

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Regional Office of Education #3 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, 2007. The Regional Office of Education #3'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 Regional Office of Education #3's management. Our responsibility is to express an opinion on the Regional Office of Education #3'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 criteria as required by the *Guidelines to Auditing and Reporting for a Regional Office of Education*. Those standards and criteria 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 Regional Office of Education #3'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 Regional Office of Education #3's compliance with those requirements.

In our opinion, the Regional Office of Education #3 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, 2007.

Internal Control Over Compliance

The management of the Regional Office of Education #3 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 Regional Office of Education #3'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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Regional Office of Education #3's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Regional Office of Education #3's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Regional Office of Education #3's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Kemper CPA Group LLP

Certified Public Accountants and Consultants

Evansville, Indiana
March 10, 2008

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED JUNE 30, 2007

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
● Material weakness(es) identified?	Yes
● Significant deficiency(s) identified that are not considered to be material weakness(es)?	Yes
● Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
● Material weakness(es) identified?	No
● Significant deficiency(s) identified that are not considered to be material weakness(es)?	No
Type of auditor’s report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	No

Identification of **major** programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010A	Standards Aligned Classroom

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

Auditee qualified as a low-risk auditee? Yes

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding No. 07-1 – Controls Over Financial Statement Preparation

Criteria/specific requirement:

The Regional Office of Education #3 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Regional Office internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

Condition:

The Regional Office of Education #3 does not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements sufficient for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, there were no entries made by the ROE to reconcile their grant activity, such as posting grant receivables and deferred revenues. The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

Cause:

According to Regional Office officials, they did not have adequate funding to hire and/or train their accounting personnel in order to comply with these requirements.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 07-1 –Controls Over Financial Statement Preparation (Concluded)

Recommendation:

As part of its internal control over the preparation of its financial statements, including disclosures, the Regional Office of Education #3 should implement a comprehensive preparation and/or review procedure to ensure that the financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Regional Office of Education's activities and operations.

Management's Response:

The regional superintendent agrees with this finding. The regional superintendent employs two individuals who hold accounting degrees. The regional superintendent will seek funding to properly train these staff members in the preparation and review of financial statements. The regional superintendent will also seek funding to solicit the services of a qualified CPA to provide guidance in the preparation and review procedures necessary to prepare and review financial statements.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 07-2 – Internal Control over Disbursements and Purchases (Repeat of 06-2)

Criteria/specific requirement:

The Regional Office of Education #3's established internal control policy requires all credit card purchases to be approved prior to actual purchase.

Condition:

In our testing of 25 credit card transactions, we noted two instances where the Regional Office did not have proper documentation to show prior approval for credit card charges totaling \$113 as is required by Regional Office policy.

Effect:

Inappropriate purchases are possible when approval is not obtained before the credit card is charged.

Cause:

The Regional Office of Education #3 is not following their internal control procedures over credit card purchases.

Auditors' Recommendation:

The Regional Office of Education #3 should follow their established internal control procedures to ensure that all credit card purchases have documented approval before the credit card is charged.

Management's Response:

The Regional Superintendent agrees with this finding. The internal control procedures will be followed uniformly for all purchases made by the Regional Office of Education and its programs.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 07-3 – Inadequate Accounting Software and Internal Controls

Criteria/specific requirement:

The Regional Superintendent of Schools is responsible for establishing and maintaining an internal control system to prevent errors and irregularities. In addition, Regional Office of Education #3 (ROE) is required by the Illinois State Board of Education to maintain their accounting system in accordance with the Regional Office of Education Accounting Manual. This manual requires the ROE to maintain an accounting system on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances and changes therein.

Condition:

The ROE utilizes an accounting software package which was not designed for governmental entities. The package does not provide the internal controls and reporting features required for proper fund accounting.

With the current system, transactions can easily be misclassified and changed after the original entry has been made without record of the change. We noted this change in six different checks totaling \$5,686 during credit card testing.

The entries to the accounting system are not being reviewed on a timely basis to ensure that misclassification or changes have not occurred.

The ROE maintains three different general ledger systems to account for the operations of the various programs it administers. The software package allows for the revenues and expenses of the ROE's programs to be accounted for separately, but combines the assets and liabilities of all programs rather than accounting for them separately by fund.

Effect:

With three general ledger systems, the ROE's management cannot easily obtain entity-wide financial information necessary to make informed management decisions. Without an accounting system with proper internal controls, errors or misappropriations may occur and not be detected by management. In addition, financial statements in accordance with generally accepted accounting principles and the Regional Office of Education Accounting Manual cannot be readily prepared from the current accounting system.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 07-3 – Inadequate Accounting Software and Internal Controls (Concluded)

Cause:

The ROE was unaware of the requirements set forth in the Regional Office of Education Accounting Manual regarding the requirement to maintain an adequate accounting system.

Recommendation:

The Regional Office of Education #3 should implement an accounting software application that provides the necessary controls and reporting features required for proper fund accounting. An appropriate accounting system will support the multiple programs and funds administered by the ROE. The accounting system should have the capabilities necessary for the Regional Office to be in compliance with the Regional Office of Education Accounting Manual and provide the reporting detail necessary to prepare financial statements in accordance with generally accepted accounting principles. The entries to the accounting system should be reviewed to ensure that misclassification or changes have not occurred after approval.

Management's Response:

The Regional Superintendent agrees with this finding. The regional superintendent is seeking bids from vendors for an accounting software application that provides the necessary controls and reporting features required for proper fund accounting and the preparation of financial statements in accordance with the Regional Office of Education Accounting Manual. The Regional Office of Education will purchase accounting software and will consolidate the three different ledger systems in order to reduce errors or misappropriations and to improve access to entity-wide financial information necessary to make informed management decisions.

The regional superintendent has reviewed the requirements set forth in the Regional Office of Education Accounting Manual.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

Finding No. 07-4 – Capitalization Policy

Criteria/specific requirement:

The Regional Office of Education #3's capitalization policy is to capitalize all capital asset purchases that exceed \$500.

Condition:

The Regional Office of Education #3 did not capitalize a leasehold improvement costing \$4,240 for the Alternative Education program as a capital asset.

In addition, several assets added to the Regional Office of Education #3's capital asset listing were expensed as purchased services or supplies. Conversely, the Alternative Education's general ledger included several entries to capital outlay that were actually expenses for purchased services and supplies.

Effect:

The capital asset listing of the Regional Office of Education #3 was incomplete.

Cause:

The Regional Office of Education #3 is not following their internal control procedures for capitalizing assets over \$500.

Auditors' Recommendation:

The Regional Office of Education #3 should review account coding of the capital asset purchases with the original supporting documentation to ensure that the Regional Office of Education #3's capitalization policy is being followed.

Management's Response:

The Regional Superintendent agrees with this finding. The regional superintendent was unaware that leasehold improvements were considered capital assets until this was pointed out by the auditors. The regional superintendent has reviewed the account coding of capital asset purchases and will ensure that leasehold improvements will be capitalized in the future.

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

SECTION III – FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS:

NONE

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
CORRECTIVE ACTION PLAN FOR CURRENT-YEAR AUDIT FINDINGS
JUNE 30, 2007

Corrective Action Plan

Finding No. 07-1 –Controls Over Financial Statement Preparation

Condition:

The Regional Office of Education #3 does not have sufficient internal controls over the financial reporting process. The Regional Office maintains their accounting records on the cash basis of accounting. While the Regional Office maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements sufficient for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Regional Office's accounting records, noted the following:

- The Regional Office did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or deferred revenues. While the Regional Office did maintain records to indicate the balances of accounts payable, accounts receivable, and deferred revenues, there were no entries made by the ROE to reconcile their grant activity, such as posting grant receivables and deferred revenues. The Regional Office's financial information required numerous adjusting entries to present the financial statements in accordance with generally accepted accounting principles.

Plan:

The regional superintendent employs two individuals who hold accounting degrees. The regional superintendent will seek funding to properly train these staff members in the preparation and review of financial statements. The regional superintendent will also seek funding to solicit the services of a qualified CPA to provide guidance in the preparation and review procedures necessary to prepare and review financial statements.

Anticipated Date of Completion:

Immediately upon learning of the oversight.

Name of Contact Person:

Honorable Mr. Mark A. Drone, Regional Superintendent of Schools

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
CORRECTIVE ACTION PLAN FOR CURRENT-YEAR AUDIT FINDINGS
JUNE 30, 2007

Corrective Action Plan (Continued)

Finding No. 07-2 – Internal Control over Disbursements and Purchases (Repeat of 06-2)

Condition:

In our testing of 25 credit card transactions, we noted two instances where the Regional Office did not have proper documentation to show prior approval for credit card charges totaling \$113 as is required by Regional Office policy.

Plan:

The internal control procedures will be followed uniformly for all purchases made by the Regional Office of Education and its programs.

Anticipated Date of Completion:

Immediately upon learning of the oversight.

Name of Contact Person:

Honorable Mr. Mark A. Drone, Regional Superintendent of Schools

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
CORRECTIVE ACTION PLAN FOR CURRENT-YEAR AUDIT FINDINGS
JUNE 30, 2007

Corrective Action Plan (Continued)

Finding No. 07-3 – Inadequate Accounting Software and Internal Controls

Condition:

The ROE utilizes an accounting software package which was not designed for governmental entities. The package does not provide the internal controls and reporting features required for proper fund accounting.

With the current system, transactions can easily be misclassified and changed after the original entry has been made without record of the change. We noted this change in six different checks totaling \$5,686 during credit card testing.

The entries to the accounting system are not being reviewed on a timely basis to ensure that misclassification or changes have not occurred.

The ROE maintains three different general ledger systems to account for the operations of the various programs it administers. The software package allows for the revenues and expenses of the ROE's programs to be accounted for separately, but combines the assets and liabilities of all programs rather than accounting for them separately by fund.

Plan:

The regional superintendent is seeking bids from vendors for an accounting software application that provides the necessary controls and reporting features required for proper fund accounting and the preparation of financial statements in accordance with the Regional Office of Education Accounting Manual. The Regional Office of Education will purchase accounting software and will consolidate the three different ledger systems in order to reduce errors or misappropriations and to improve access to entity-wide financial information necessary to make informed management decisions.

Anticipated Date of Completion:

Immediately upon learning of the oversight.

Name of Contact Person:

Honorable Mr. Mark A. Drone, Regional Superintendent of Schools

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
CORRECTIVE ACTION PLAN FOR CURRENT-YEAR AUDIT FINDINGS
JUNE 30, 2007

Corrective Action Plan (Continued)

Finding No. 07-4 – Capitalization Policy

Condition:

The Regional Office of Education #3 did not capitalize a leasehold improvement costing \$4,240 for the Alternative Education program as a capital asset.

In addition, several assets added to the Regional Office of Education #3's capital asset listing were expensed as purchased services or supplies. Conversely, the Alternative Education's general ledger included several entries to capital outlay that were actually expenses for purchased services and supplies.

Plan:

The regional superintendent has reviewed the account coding of capital asset purchases and will ensure that leasehold improvements will be capitalized in the future.

Anticipated Date of Completion:

Immediately upon learning of the oversight.

Name of Contact Person:

Honorable Mr. Mark A. Drone, Regional Superintendent of Schools

BOND, FAYETTE, EFFINGHAM COUNTIES
REGIONAL OFFICE OF EDUCATION #3
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2007

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
06-1	A. Public Act 95-496 repealed the requirements of 105 ILCS 5/3-14.11	Resolved
	B. Public Act 95-496 repealed the requirements of 105 ILCS 5/3-14.5	Resolved
06-2	Internal Control over Disbursements and Purchases	Repeat 07-2

MANAGEMENT'S DISCUSSION AND ANALYSIS

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

The following is a discussion and analysis of the financial performance of the Regional Office of Education for Bond, Fayette, and Effingham Counties for the fiscal year ended June 30, 2007. This section is a summary of the financial activities of the Regional Office of Education #3 based on currently known facts, decisions, or conditions. It is also based on both the government-wide and governmental fund financial statements. The results of the current year are discussed in comparison with the prior year, with an emphasis placed on the current year. This section is only an introduction and should be read in conjunction with the financial statements for the Regional Office of Education for Bond, Fayette, and Effingham Counties, which immediately follow this section.

Overview of the Financial Statements

This annual report consists of five parts: Management's Discussion and Analysis (MD&A), the Basic Financial Statements, Notes to the Financial Statements, required supplementary information, and supplementary information. The Basic Financial Statements include two kinds of statements that present different views of the Regional Office of Education #3:

- The first two statements are general financial statements that provide both short-term and long-term information about the Regional Office of Education #3's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Regional Office of Education #3, reporting the Regional Office of Education #3's operations in more detail than the general statements. The fund financial statements concentrate on the Regional Office of Education #3's most significant funds with all other non-major funds listed in total in one column.
 - a) Governmental fund statements tell how basic services such as grant-funded programs were financed in the short term as well as what remains for future spending.
 - b) Proprietary fund statements provide information related to services provided to organizations comprising the Bond, Fayette, and Effingham Counties Education Service Region.
 - c) Fiduciary fund statements provide information about the financial relationships in which the Regional Office of Education #3 acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Required supplementary information includes Management's Discussion and Analysis and the Illinois Municipal Retirement Fund Schedule of Funding Progress that further explains and supports the financial statements. Supplementary information provides a comparison of the Regional Office of Education #3's budgets for the year and also includes combining and individual nonmajor fund financial statements.

Figure A-1 summarizes the major features of the Regional Office of Education #3's financial statements, including the portion of the Regional Office of Education #3's activities they cover and the types of information they contain. The remainder of this overview section of MD&A highlights the structure and contents of each of the statements.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Overview of the Financial Statements (Continued)

Figure A-1

Major Features of the Regional Office of Education #3's Government-wide and Fund Financial Statements				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Regional Office of Education (except fiduciary funds)	The activities of the Regional Office of Education that are not proprietary or fiduciary, such as special revenue and general funds	Activities the Regional Office of Education operates in which expenses related to services are done on a cost-reimbursement basis.	Instances in which the Regional Office of Education administers resources on behalf of someone else.
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses and Changes in Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Overview of the Financial Statements (Continued)

Government-Wide Statements

The government-wide statements report information about the Regional Office of Education #3 as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Regional Office of Education #3's assets and liabilities. All of the current year's 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 Regional Office of Education #3's net assets and how they have changed. Net assets, the difference between the Regional Office of Education #3's assets and liabilities, is one way to measure the Regional Office of Education #3's financial health or position.

- Increases or decreases in the Regional Office of Education #3's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Regional Office of Education #3, one needs to consider additional non-financial factors, such as changes in the State Board of Education's policies, as well as changes in federal programs and policies that impact educational services in individual States.

In the government-wide financial statements, the Regional Office of Education #3's activities are divided into two categories:

- **Governmental Activities:** Most of the Regional Office of Education #3's basic services are included here, such as grant-funded programs, support services, and administration.
- **Business-type activities:** The Regional Office of Education #3 charges fees to help cover the costs of certain services and workshops it provides.

Fund Financial Statements

The fund financial statements provide more detailed information about the Regional Office of Education #3's funds, focusing on its most significant or "major" funds – not the Regional Office of Education #3 as a whole. Funds are accounting devices the Regional Office of Education #3 uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law. The Regional Office of Education #3 establishes other funds to control and to manage money for particular purposes or to show that it is properly using certain revenues, such as federal grants.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Overview of the Financial Statements (Continued)

Fund Financial Statements (Concluded)

The Regional Office of Education #3 has three kinds of funds:

- **Governmental Funds:** Most of the Regional Office of Education #3's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Regional Office of Education #3's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, a reconciliation between the governmental fund financial statements and the government-wide financial statements follows the related governmental fund financial statements.
- **Proprietary Funds:** The Regional Office of Education #3 charges fees for some services. Proprietary funds are reported in the same way as government-wide statements. The Regional Office of Education #3's Enterprise funds, one type of proprietary fund, is the same as its business-type activities, but provides more detail and additional information, such as cash flows. The Regional Office of Education #3 currently has one Enterprise Fund, the Local Workshops Fund.
- **Fiduciary Funds:** The Regional Office of Education #3 is the trustee, or fiduciary, for a small amount of assets that belong to others. The Regional Office of Education #3 is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The Regional Office of Education #3 excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

Government-wide Financial Analysis

Statement of Net Assets

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components-the amount due within one year and the amount due in more than one year. The difference between the Regional Office of Education #3's assets and liabilities is its net assets.

This section will explain the differences between the current and prior year's assets, liabilities, and changes in net assets. The Regional Office of Education for Bond, Fayette, and Effingham Counties' financial activities include both Governmental and Business-type activities. These are reported below.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Government-wide Financial Analysis (Continued)

Statement of Net Assets (Continued)

CONDENSED STATEMENT OF NET ASSETS

GOVERNMENTAL ACTIVITIES

	<u>2007</u>	<u>2006</u>	<u>Increase / (Decrease)</u>
Current Assets	\$ 531,404	\$ 537,346	(5,942)
Capital assets, being depreciated, net	<u>56,980</u>	<u>27,476</u>	29,504
Total Assets	<u>588,384</u>	<u>564,822</u>	23,562
 Current Liabilities	 <u>87,582</u>	 <u>123,891</u>	 (36,309)
Net Assets:			
Invested in capital assets	56,980	27,476	29,504
Restricted for Teacher Prof. Dev.	51,936	49,839	2,097
Unrestricted	<u>391,886</u>	<u>363,616</u>	28,270
Total Net Assets	<u>\$ 500,802</u>	<u>\$ 440,931</u>	59,871

The Regional Office of Education #3's governmental assets exceeded governmental liabilities (net assets) by \$500,802 at the close of the fiscal year and remained relatively consistent from fiscal year 2006 to 2007. Cash and cash equivalents made up the majority of assets. The Regional Office of Education #3 uses its governmental net assets to perform general operations, provide professional services to school districts in the Bond, Fayette, and Effingham Counties Educational Service Region and surrounding areas, and to operate Alternative Education Programs within the region. In addition, net assets related to the Institute Fund are considered restricted for teacher professional development.

BUSINESS-TYPE ACTIVITIES

	<u>2007</u>	<u>2006</u>	<u>Increase / (Decrease)</u>
Current Assets	\$ 144,766	\$ 147,007	(2,241)
Capital assets, being depreciated, net	<u>9,482</u>	<u>6,627</u>	2,855
Total Assets	<u>154,248</u>	<u>153,634</u>	614
Net Assets:			
Invested in capital assets	9,482	6,627	2,855
Unrestricted	<u>144,766</u>	<u>147,007</u>	(2,241)
Total Net Assets	<u>\$ 154,248</u>	<u>\$ 153,634</u>	614

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Government-wide Financial Analysis (Continued)

Statement of Net Assets (Concluded)

The Regional Office of Education #3 uses its business-type net assets to provide workshop and training services to school districts in the Bond, Fayette, and Effingham Counties Educational Service Region and surrounding areas.

General Overview and Analysis of Significant Individual Governmental Funds

NON-MAJOR SPECIAL REVENUE FUNDS

- The Institute Fund is administered by the Regional Office of Education #3 and had a fund balance of \$51,936 which represents a \$2,097 increase above the previous year.
- The General Education Development Fund is administered by the Regional Office of Education #3 and had a fund balance of \$13,280, which represents a \$269 decrease over the previous year.
- The ROE School Bus Driver Training Fund is administered by the Regional Office of Education #3 and had a fund balance of \$3,460, which represents a \$721 decrease over the previous year.
- The Supervisory Fund is administered by the Regional Office of Education #3 and had a fund balance of \$1,582, which represents a \$986 decrease over the previous year.

EDUCATION FUND

- The Technology Fund is administered by the Educational Services Division of the Regional Office of Education #3 and had a fund balance of \$87,463, which represents no change from the previous year.
- The Alternative Education State Aid Fund is administered by the Alternative Education Programs of the Regional Office of Education #3 and had a fund balance of \$87,948, which represents a \$13,889 increase over the previous year.
- The Truants Alternative/Optional Education Fund is administered by the Alternative Education Programs of the Regional Office of Education #3 and had a fund balance of \$68,922, which represents a \$19,954 decrease from the previous year.
- The Regional Safe Schools Fund is administered by the Alternative Education Programs of the Regional Office of Education #3 and had a fund balance of \$32,734, which represents a \$10,166 increase over the previous year.
- The Local Area Network Fund is administered by the Alternative Education Programs of the Regional Office of Education #3 and had a fund balance of \$27,591, which represents a \$3,261 increase over the previous year.

DISTRIBUTIVE FUND

- The Distributive Fund is administered by the Regional Office of Education #3 and disbursed \$958,768 to Educational Services, the FOCUS School, the Regional Office of Education #3, and The New Approach School. The sources of funds include: General State Aid 18-8, ROE School Bus Driver Training, Truants Alternative/Optional Ed., Regional Safe Schools, Early Childhood Block Grant, ROE/ISC Operations, Supervisory Fund, McKinney Education for Homeless Children, State Free Lunch and Breakfast, National School Lunch and School Breakfast and Interest.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Government-wide Financial Analysis (Continued)

Statement of Activities

The Statement of Activities accounts for all of the current year revenues and expenses regardless of when cash is received or paid.

STATEMENT OF ACTIVITIES

GOVERNMENTAL ACTIVITIES

	2007	2006	Increase / (Decrease)
Revenues:			
Program Revenues:			
Operating Grants and Contributions	\$ 933,479	\$ 813,131	120,348
General Revenues	1,145,844	1,046,989	98,855
Total Revenues	2,079,323	1,860,120	219,203
Expenses:			
Instructional Services			
Salaries and benefits	1,001,938	941,066	60,872
Purchased services	535,965	502,172	33,793
Supplies and materials	68,957	45,661	23,296
Payments to other Governments	161,000	65,850	95,150
Other objects	702	4,764	(4,062)
Depreciation	16,067	17,482	(1,415)
Administrative Expense:			
On-Behalf payments - State & Local	234,823	218,781	16,042
Total Expenses	2,019,452	1,795,776	223,676
Change in Net Assets	59,871	64,344	(4,473)
Net Assets - Beginning	440,931	376,587	64,344
Net Assets - Ending	\$ 500,802	\$ 440,931	59,871

Revenues from governmental activities were \$2,079,303 and expenses were \$2,019,452. The Regional Office of Education #3 received more local and state revenue in FY07 which increased general revenues. The increase in salaries and benefits expense was due to the fact that the Regional Office of Education #3's need to provide Alternative Education Program services over the last year has increased and other services provided have required an increase in personnel.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Government-wide Financial Analysis (Concluded)

Statement of Activities (Concluded)

STATEMENT OF ACTIVITIES

BUSINESS-TYPE ACTIVITIES

	2007	2006	Increase / (Decrease)
Revenues:			
Program Revenues:			
Charges for Services	\$ 44,340	\$ 23,394	20,946
General Revenues	-	-	-
Total Revenues	<u>44,340</u>	<u>23,394</u>	20,946
Expenses:			
Salaries and benefits	22,700	59,374	(36,674)
Purchased services	13,975	16,203	(2,228)
Supplies and materials	4,101	503	3,598
Other objects	1,318	279	1,039
Depreciation	1,632	510	1,122
Total Expenses	<u>43,726</u>	<u>76,869</u>	(33,143)
Change in Net Assets	614	(53,475)	54,089
Net Assets - Beginning	<u>153,634</u>	<u>207,109</u>	(53,475)
Net Assets - Ending	<u>\$ 154,248</u>	<u>\$ 153,634</u>	614

Revenues from business-type activities were \$44,340 and expenses were \$43,726. The Regional Office of Education #3's business-type activities include workshops that involve charges for service. Expenses include salaries and purchases of goods and supplies to support these activities. In FY06, the Regional Office of Education #3 provided workshops to school districts without being fully reimbursed until FY07. As a result, the Regional Office of Education collected charges for services in FY07 for workshops performed and expensed in FY06. Thus, revenues for business-type activities increased in FY07, while expenditures decreased.

REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007

Financial Analysis of the Regional Office of Education #3's Funds

The Regional Office of Education #3 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Regional Office of Education #3's governmental funds reported combined fund balances of \$30,367 above last year's ending fund balance of \$413,455. The Regional Office of Education #3's proprietary funds reported combined fund balance of \$614 above last year's ending fund balance of \$153,634.

Governmental Fund Highlights

- The Regional Office of Education #3's Education Fund and General Fund showed revenue slightly greater than expenses. The Alternative Education State Aid Fund and the Regional Safe Schools Fund had increased balances as a part of the Education Fund. The General Fund and Country Fund had increased balances as a part of the General Fund.

Proprietary Fund Highlights

- The Regional Office of Education #3's business-type activities brought in revenue consistent to expenditures during FY07. This was due to charges for services collected in FY07 for workshops performed and expensed in FY06. As part of its mission, the Regional Office of Education #3 continues to provide workshop and training services to school districts even during economically challenging times. Some workshops were offered free-of-charge and below cost-recovery in order to meet organizational objectives.

Budgetary Highlights

The Regional Office of Education #3 annually adopts a budget on a basis consistent with U.S. generally accepted accounting principles; however, the annual budget is not required to be legally adopted. The Illinois State Board of Education reviews the proposed budget and either grants approval or returns it without approval and 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. A schedule showing the original and final budget amounts compared to the Regional Office of Education #3's actual financial activity is included in the supplementary information section of this report.

Capital Assets

As of June 30, 2007, the Regional Office of Education #3 had an investment in capital assets of \$66,462, original cost less accumulated depreciation, which consist of a narrow range of capital assets, including computers and audio-visual equipment. The Regional Office of Education #3 continues to maintain a capital asset inventory from which future comparisons to previous years can be made.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Factors Bearing on the Regional Office of Education #3's Future (Concluded)

At the time these financial statements were prepared and audited, the Regional Office of Education #3 was aware of several existing circumstances that could significantly impact its financial health in the future:

- The Regional Office of Education #3 provides programs and services in compliance with statutory, regulatory and mandated requirements from legislation and the Illinois State Board of Education despite a level of funding from the State that does not keep pace with the increasing cost of providing such programs and services. Consequently, the Regional Office of Education #3 is forced to maintain a limited professional and clerical staff while trying to provide a consistent level of support and services to schools and to the educational service region served by the regional superintendent of schools. Specific examples of programs that are operating at losses are the G.E.D. testing program and the Bus Driver Training program. The costs associated with both programs are increasing yearly. The price of G.E.D. testing materials is set by the G.E.D.T.S. in Washington, D.C. The cost to examinees is set by the State of Illinois and has been fixed at a \$35.00 rate for many years, despite requests from regional superintendents and the Illinois Community College Board for an increase. Likewise, the cost associated with providing bus driver training is fixed by the State of Illinois at \$4.00 per trainee. To attract and keep quality trainers requires adequate compensation, which is hampered by the frozen training fee.
- The Regional Office of Education #3 has a policy of re-deploying aging computer and audio-visual inventory within the organization. The equipment being replaced is refurbished for use by the alternative education programs, which are also accepting donated computer equipment from other agencies and using open source licensed software programs rather than commercial licensed software programs in an effort to reduce costs. This practice has resulted in an increased number of computers available for student use at little or no expense to any program. The regional superintendent provides new equipment, software, and training to personnel as needed.
- A limited number of federal and state grant programs help support the Regional Office of Education #3's Educational Services Division. Funding from these grant programs is not assured from year to year. Because of limited availability of funds to other agencies and organizations, there is increased competition for funded grant programs due in part to a reduction in the amount of grant funding available and the similar financial circumstances all entities are experiencing. The future of the Alternative Education Programs and the Educational Services Division (and the programs and services they provide) is directly dependent on their abilities to compete for grant funding. The Alternative Education Programs have been expanding due to increased needs by the districts for placement of students requiring alternative educational services. Because of an increase in the number of students served by the programs, an increase in personnel has been required.
- The Regional Office of Education #3 operates under conservative fiscal management and will continue to remain productive through the current State budgetary stalemate by staying within fiscal limits and by utilizing available resources effectively. A continuous review of current and past practices, as well as current operations policies has led to practical modifications resulting in reduction of expenditures and stable fund balances.

**REGIONAL OFFICE OF EDUCATION #3
BOND, FAYETTE, EFFINGHAM COUNTIES
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2007**

Contacting the Regional Office of Education #3's Financial Management

This financial report is designed to provide those citizens and taxpayers who reside within the Bond, Fayette, and Effingham Counties Regional Office of Education #3 boundaries with a general overview of the Regional Office of Education #3's finances and to demonstrate the Regional Office of Education #3's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Regional Office of Education #3, 300 South Seventh Street, Vandalia, IL 62471.

BASIC FINANCIAL STATEMENTS

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 504,835	\$ 144,766	\$ 649,601
Due from other governments:			
Local	19,893	-	19,893
State	6,676	-	6,676
Total Current Assets	<u>531,404</u>	<u>144,766</u>	<u>676,170</u>
Noncurrent Assets:			
Capital assets, being depreciated, net	<u>56,980</u>	<u>9,482</u>	<u>66,462</u>
Total Noncurrent Assets	<u>56,980</u>	<u>9,482</u>	<u>66,462</u>
TOTAL ASSETS	<u><u>588,384</u></u>	<u><u>154,248</u></u>	<u><u>742,632</u></u>
LIABILITIES			
Current Liabilities:			
Accounts payable	30,381	-	30,381
Accrued payroll and employee benefits	2,621	-	2,621
Deferred revenue	54,580	-	54,580
Total Current Liabilities	<u>87,582</u>	<u>-</u>	<u>87,582</u>
TOTAL LIABILITIES	<u><u>87,582</u></u>	<u><u>-</u></u>	<u><u>87,582</u></u>
NET ASSETS			
Invested in capital assets	56,980	9,482	66,462
Restricted for teacher professional development	51,936	-	51,936
Unrestricted	<u>391,886</u>	<u>144,766</u>	<u>536,652</u>
TOTAL NET ASSETS	<u><u>\$ 500,802</u></u>	<u><u>\$ 154,248</u></u>	<u><u>\$ 655,050</u></u>

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
Instructional services:						
Salaries and benefits	\$ 1,001,938	\$ -	\$ 437,718	\$ (564,220)	\$ -	\$ (564,220)
Purchased services	535,965	-	245,349	(290,616)	-	(290,616)
Supplies and materials	68,957	-	43,229	(25,728)	-	(25,728)
Capital outlay	-	-	45,571	45,571	-	45,571
Payments to other governments	161,000	-	161,000	-	-	-
Other objects	702	-	612	(90)	-	(90)
Depreciation	16,067	-	-	(16,067)	-	(16,067)
Administrative:						
On-behalf payments - State	234,823	-	-	(234,823)	-	(234,823)
Total governmental activities	<u>2,019,452</u>	<u>-</u>	<u>933,479</u>	<u>(1,085,973)</u>	<u>-</u>	<u>(1,085,973)</u>
Business-type activities:						
Other	42,094	44,340	-	-	2,246	2,246
Depreciation	1,632	-	-	-	(1,632)	(1,632)
Total business-type activities	<u>43,726</u>	<u>44,340</u>	<u>-</u>	<u>-</u>	<u>614</u>	<u>614</u>
TOTAL PRIMARY GOVERNMENT	<u>\$ 2,063,178</u>	<u>\$ 44,340</u>	<u>\$ 933,479</u>	<u>(1,085,973)</u>	<u>614</u>	<u>(1,085,359)</u>
GENERAL REVENUES:						
				565,459	-	565,459
				341,721	-	341,721
				234,823	-	234,823
				3,841	-	3,841
				<u>1,145,844</u>	<u>-</u>	<u>1,145,844</u>
				59,871	614	60,485
				<u>440,931</u>	<u>153,634</u>	<u>594,565</u>
				<u>\$ 500,802</u>	<u>\$ 154,248</u>	<u>\$ 655,050</u>

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

	General Fund	Education Fund	Other Non-Major Funds	Eliminations	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 130,118	\$ 304,459	\$ 70,258	\$ -	\$ 504,835
Due from other funds	-	6,676	-	(6,676)	-
Due from other governments:					
Local	5,000	14,893	-	-	19,893
State	-	6,676	-	-	6,676
TOTAL ASSETS	\$ 135,118	\$ 332,704	\$ 70,258	\$ (6,676)	\$ 531,404
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 30,381	\$ -	\$ -	\$ -	\$ 30,381
Accrued payroll and employee benefits	-	2,621	-	-	2,621
Due to other funds	-	6,676	-	(6,676)	-
Deferred revenue	51,697	2,883	-	-	54,580
Total liabilities	82,078	12,180	-	(6,676)	87,582
Fund balances:					
Unreserved, reported in:					
General fund	53,040	-	-	-	53,040
Special revenue funds	-	320,524	70,258	-	390,782
Total fund balances	53,040	320,524	70,258	-	443,822
TOTAL LIABILITIES AND FUND BALANCES	\$ 135,118	\$ 332,704	\$ 70,258	\$ (6,676)	\$ 531,404

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 443,822

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. 56,980

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 500,802

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Education Fund	Other Non-Major Funds	Total Governmental Funds
REVENUES				
Local sources	\$ 343,725	\$ 193,203	\$ 28,531	\$ 565,459
State sources	72,980	707,307	17,209	797,496
Federal sources	-	477,704	-	477,704
On-behalf payments - State	234,823	-	-	234,823
Total Revenues	651,528	1,378,214	45,740	2,075,482
EXPENDITURES				
Current:				
Instructional Services				
Salaries and benefits	205,840	783,148	12,950	1,001,938
Purchased services	161,907	348,113	25,945	535,965
Supplies and materials	11,700	52,922	4,335	68,957
Capital outlay	17,020	26,252	2,299	45,571
Payments to other governments	-	161,000	-	161,000
Other objects	539	73	90	702
On-behalf payments - State	234,823	-	-	234,823
Total Expenditures	631,829	1,371,508	45,619	2,048,956
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	19,699	6,706	121	26,526
OTHER FINANCING SOURCES (USES)				
Interest	2,315	1,526	-	3,841
Net Other Sources and Uses of Financing Resources	2,315	1,526	-	3,841
NET CHANGE IN FUND BALANCES	22,014	8,232	121	30,367
FUND BALANCES - BEGINNING	31,026	312,292	70,137	413,455
FUND BALANCES - ENDING	\$ 53,040	\$ 320,524	\$ 70,258	\$ 443,822

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007

NET CHANGE IN FUND BALANCES \$ 30,367

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	\$ 45,571	
Depreciation expense	<u>(16,067)</u>	<u>29,504</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 59,871

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2007

	<u>Business-Type Activities - Enterprise Fund</u>	
	<u>Local Workshops</u>	<u>Totals</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 144,766	\$ 144,766
Total current assets	<u>144,766</u>	<u>144,766</u>
Noncurrent assets:		
Capital assets, net of accumulated depreciation, where applicable:		
Equipment, net	<u>9,482</u>	<u>9,482</u>
Capital assets, net	<u>9,482</u>	<u>9,482</u>
Total noncurrent assets	<u>9,482</u>	<u>9,482</u>
TOTAL ASSETS	<u>154,248</u>	<u>154,248</u>
NET ASSETS		
Invested in capital assets	9,482	9,482
Unrestricted	<u>144,766</u>	<u>144,766</u>
TOTAL NET ASSETS	<u>\$ 154,248</u>	<u>\$ 154,248</u>

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Business-Type Activities— Enterprise Fund</u>	
	<u>Local Workshops</u>	<u>Totals</u>
OPERATING REVENUES		
Local sources	\$ 44,340	\$ 44,340
Total Operating Revenues	<u>44,340</u>	<u>44,340</u>
OPERATING EXPENSES		
Salaries and benefits	22,700	22,700
Purchased services	13,975	13,975
Supplies and materials	4,101	4,101
Other objects	1,318	1,318
Depreciation	1,632	1,632
Total Operating Expenses	<u>43,726</u>	<u>43,726</u>
OPERATING INCOME (LOSS)	<u>614</u>	<u>614</u>
CHANGE IN NET ASSETS	614	614
TOTAL NET ASSETS - BEGINNING	<u>153,634</u>	<u>153,634</u>
TOTAL NET ASSETS - ENDING	<u>\$ 154,248</u>	<u>\$ 154,248</u>

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

BOND, FAYETTE, EFFINGHAM REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Business-Type Activities— Enterprise Fund		Totals
	Local Workshops		
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 44,340		\$ 44,340
Payments to suppliers and providers of goods and services	(19,394)		(19,394)
Payments to employees	(22,700)		(22,700)
	2,246		2,246
Cash Flows from Capital and Related Financing Activities:			
Acquisition of capital assets	(4,487)		(4,487)
Net Cash Used for Capital and Related Financing Activities	(4,487)		(4,487)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,241)		(2,241)
CASH AND CASH EQUIVALENTS - BEGINNING	147,007		147,007
CASH AND CASH EQUIVALENTS - ENDING	\$ 144,766		\$ 144,766
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES			
Operating income (loss)	\$ 614		\$ 614
Adjustments to reconcile operating (loss) to net cash provided by (used for) operating activities:			
Depreciation	1,632		1,632
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 2,246		\$ 2,246

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2007

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$ 597</u>
TOTAL ASSETS	<u><u>\$ 597</u></u>
LIABILITIES	
Due to other governments	<u>\$ 597</u>
TOTAL LIABILITIES	<u><u>\$ 597</u></u>

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

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Bond, Fayette, Effingham Counties Regional Office of Education #3 was formed under the provisions of the State of Illinois, Illinois State Board of Education.

In 2007, the Regional Office of Education #3 was required to implement GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Regional Office of Education #3 implemented these standards during the current year; however, they do not have any impact on the financial statements.

A. FINANCIAL REPORTING ENTITY

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; visitation of public schools; direction of teachers and school officers; to serve as the official advisor and assistant of school officers and teachers; to conduct teachers institutes as well as to aid and encourage the formation of other teachers' meetings and assist in their management; evaluate the schools in the region; examine school treasurers' 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 money 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 Bond, Fayette, Effingham Counties Regional Office of Education #3'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 or permitted 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.

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 bond 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.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. FINANCIAL REPORTING ENTITY, (Concluded)

For the period ended June 30, 2007, the Bond, Fayette, Effingham Counties Regional Office of Education #3 applied for, received, and administered numerous State and Federal programs and grants in assistance and support of the educational activities of the school districts in Bond, Fayette, and Effingham Counties Regional Office of Education #3. Such activities are reported as a single major special revenue fund (Education Fund).

B. SCOPE OF THE REPORTING ENTITY

The Bond, Fayette, Effingham Counties Regional Office of Education #3 reporting entity includes all related organizations for which they exercise oversight responsibility.

The Bond, Fayette, Effingham Counties Regional Office of Education #3 has developed criteria to determine whether outside agencies with activities which benefit the citizens of the Bond, Fayette, Effingham Counties Regional Office of Education #3, including districts or joint agreements which serve pupils from numerous regions, should be included in its financial reporting entity. The criteria include, but are not limited to, whether the Bond, Fayette, Effingham Counties Regional Office of Education #3 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 districts and joint agreements have been determined not to be a part of the reporting entity after applying the manifesting of oversight, scope of public service, and special financing relationships criteria and are therefore excluded from the accompanying financial statements because the Bond, Fayette, Effingham Counties Regional Office of Education #3 does not control the assets, operations, or management of the districts or joint agreements. In addition, the Bond, Fayette, Effingham Counties Regional Office of Education #3 is not aware of any entity, which would exercise such oversight as to result in the Bond, Fayette, Effingham Counties Regional Office of Education #3 being considered a component unit of the entity.

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Bond, Fayette, Effingham Counties Regional Office of Education #3's activities with most of the interfund activities removed. Governmental activities include programs supported primarily by State and Federal grants and other intergovernmental revenues. The Bond, Fayette, Effingham Counties Regional Office of Education #3 has one business-type activity that relies on fees and charges for support.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Concluded)

The Bond, Fayette, Effingham Counties Regional Office of Education #3's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental and business-type activities for the Bond, Fayette, Effingham Counties Regional Office of Education #3 accompanied by a total column. These statements are presented on an "economic resources" measurement as prescribed by GASB Statement No. 34. All of the Bond, Fayette, Effingham Counties Regional Office of Education #3's assets and liabilities, including capital assets, are included in the accompanying Statement of Net Assets. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges for services and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function.

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 governmental funds are reported as separate columns in the fund financial statements.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, such as, payables, receivables and transfers. Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Funds Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and on the proprietary fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide financial statements. Interfund activities between governmental funds and business-type funds remain as due to/due from on the government-wide financial statements. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities. In the Statement of Activities, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated.

D. PROPRIETARY FUND FINANCIAL STATEMENTS

Proprietary fund 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 for each major proprietary fund and nonmajor funds aggregated.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. PROPRIETARY FUND FINANCIAL STATEMENTS (Concluded)

accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

E. GOVERNMENTAL FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and nonmajor funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented in the government-wide financial statements.

The governmental fund financial statements have been prepared in accordance with generally accepted accounting principles on the modified accrual basis. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except expenditures for prepaid expenses, and other long-term obligations, which are recognized when paid.

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

The governmental funds financial statements focus on the measurement of spending or "financial flow" and the determination of changes in financial position, rather than upon net income determination. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING, (Concluded)

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Bond, Fayette, Effingham Counties Regional Office of Education #3; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually recoverable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

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

Under the provision of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Regional Office of Education 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.

G. FUND ACCOUNTING

The Bond, Fayette, Effingham Counties Regional Office of Education #3 uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Bond, Fayette, Effingham Counties Regional Office of Education #3 uses governmental, proprietary, and fiduciary funds.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are reported. Governmental funds reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as a fund balance.

As prescribed by GASB Statement No. 34, governmental fund reporting focuses on the major funds, rather than on the fund type. There is a two-step process for determining if a fund should be reported as a major fund: 1) total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual fund are at least 10% of the corresponding total for the fund type, and 2) total assets, liabilities, revenues, or expenditures/expenses (excluding extraordinary items) of an individual

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENTAL FUNDS, (Continued)

fund are at least 5% of the corresponding total for the total of all governmental and proprietary funds combined. Funds that do not meet the major fund determination requirements are reported in aggregate as nonmajor funds. The Bond, Fayette, Effingham Counties Regional Office of Education #3 has presented all major funds that met the above qualifications.

The Bond, Fayette, Effingham Counties Regional Office of Education #3 reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Regional Office of Education #3. It is used to account for the expenditures, which benefit all school districts in the region except those required to be accounted for in other funds. General Funds include the following:

General - This fund provides funding for expenditures incurred in order to operate the Regional Office of Education #3.

ROE/ISC Operation – This fund accounts for comprehensive services to improve education in the region in the areas of gifted, staff development, administrator academies, school improvement, and technology.

County – The fund accounts for the shared expenses incurred in the operation of the Regional Superintendent's office.

EIU – This fund provides the opportunity for teachers and administrators to earn graduate credit through participation in weekend classes in programs leading to advanced degrees. Programs currently offered include a Masters Degree in Guidance and Counseling and a Masters or Specialist Degree in School Administration from EIU.

Education Fund - This fund is used to account for various grant and education enhancement programs as follows:

Technology - This program supports the technology services and technology engaged learning and integration training.

Early Childhood - This program provides support that allows qualified early childhood educators to provide in home and group assistance to families with at risk children of birth to five years of age to prepare for learning when they become school age.

Attendance Officer - This program provides funding for a truant officer which is utilized to pay for related truancy expenses.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GOVERNMENTAL FUNDS, (Continued)

Illinois Family Violence Coordinating Council - This program provides support for coordination of committees whose members focus on identifying and reducing incidences of domestic violence.

Regional System of Support Provider - This is an Area V grant through Regional Office of Education #50 which is provided to support school improvement services and trainings for the school(s) in the region on the academic warning list which did not meet AYP for 2 years in a row. This grant also supports Regional Office of Education staff members' involvement in the Area V services and in necessary training of trainer's sessions.

Standards Aligned Classroom - This program provides funding for consultants to assist teachers of participating schools in developing learning teams that studied assessment literacy.

Cooperative Curriculum - This program accounts for local receipts from participating districts that are used to pay for joint events.

Educational Sanctions by Probation - This program accounts for the reimbursement of expenses provided for the Safe School located at Effingham County Probation.

Alternative Education State Aid - This program accounts for the general State aid generated by student attendance at the New Approach Alternative School and is used for expenses related to services provided to students.

Truants Alternative/Optional Education - This program provides funding for services designed to prevent students from dropping out of school.

Adult Education & Family Literacy - This program provides funding to assist students in the completion of a secondary education.

Regional Safe Schools - This program provides funding for an alternative school program for disruptive youth in grades 6-9 whom have been removed from the regular school setting due to continuous disruptions in the classroom.

Local Area Network - This program accounts for receipts from a contractual agreement with the Regional Office of Education #2 used to match specific needs of individual students with appropriate support services.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

GOVERNMENTAL FUNDS, (Concluded)

McKinney Education for Homeless Children - This program provides training and technical assistance to school districts in the 16 counties to assist school officials in understanding and complying with the McKinney-Vento Act.

Title IV Community Service - This program encourages elementary and secondary schools and community-based agencies to create, develop, and offer service-learning opportunities for school-age youth. In addition, educate teachers about service and introduce young people to a broad range of careers and encourage them to pursue further education and training.

Asthma Athletes and Asthma Education Initiative – This program is designed to help schools implement a system to provide useful information about managing asthma to coaches and physical education teachers.

Kindergarten Standards - This program accounts for a Kindergarten Standards Training session for local kindergarten teachers.

The Bond, Fayette, Effingham Counties Regional Office of Education #3 reports the following nonmajor governmental funds:

Nonmajor Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than fiduciary or major capital projects) that are legally restricted to expenditures for specified purposes. Nonmajor special revenue funds include the following:

Institute - This fund accounts for teacher certificate registration, issuance and evaluation fees for processing certificates, and expenses to promote the professional growth of teachers and school personnel. All funds generated remain restricted until expended only on the aforementioned activities.

General Education Development - This fund accounts for the receipts and expenses pertaining to the G.E.D./High School Equivalency program for high school dropouts.

ROE School Bus Driver Training - This fund accounts for State and local receipts and expenses designed for initial and refresher courses of instruction for school bus drivers.

Supervisory - This fund accounts for proceeds provided to the Regional Superintendent by the Illinois State Board of Education to be used for travel and related purposes.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

PROPRIETARY FUND

Proprietary funds are those in which revenues and expenses related to services provided to organizations inside the Bond, Fayette, Effingham Counties Regional Office of Education #3 on a cost reimbursement basis are reported. The Bond, Fayette, Effingham Counties Regional Office of Education #3 reports its Local Workshops Fund as a major proprietary fund. The local workshop is used to account for the workshop fees and expenses of the Bond, Fayette, Effingham Counties Regional Office of Education #3.

FIDUCIARY FUND

Agency Funds - Agency Funds are used to account for assets held by the Bond, Fayette, Effingham Counties Regional Office of Education #3 in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Distributive Fund is the Bond, Fayette, Effingham Counties Regional Office of Education #3's only agency fund.

Distributive Fund - This fund distributes monies received from the State out to the school districts and other entities.

Interest on Distributive Fund - Interest on Distributive Fund is transferred at least semi-annually to recipients.

H. NET ASSETS

Equity is classified as net assets and displayed in three components:

Invested in capital assets - Consists of capital assets, net of accumulated depreciation.

Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

I. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consists of cash on deposit. The Bond, Fayette, Effingham Counties Regional Office of Education #3 considers all liquid investments with a maturity of three months or less when purchased to be cash equivalents.

J. INVENTORY

Inventory is not recorded. The cost is recorded as an expenditure at the time individual inventory items are purchased.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Concluded)

K. CAPITAL ASSETS

Capital assets purchased or acquired with an original cost of \$ 500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets as follows:

Office Equipment and Furniture	5-10 years
Computer Equipment	3-5 years
Other Equipment	5-20 years

L. COMPENSATED ABSENCES

Non-certified and certified employees who work 12 calendar months earn up to 20 vacation days for a full year of service. The accumulated total of vacation days may never exceed 30 days. In the event that a program terminates, no vacation days will be honored past the ending date of the program. Certified employees who work less than 12 calendar months per year do not earn vacation days. Employees receive up to 12 sick days annually and the unused portion is accumulated up to 180 days and carried forward. Employee sick leave is recorded when paid. Upon termination, employees do not receive any accumulated sick leave pay, and therefore, no liability is accrued.

M. ESTIMATES

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

N. BUDGET INFORMATION

The Bond, Fayette, Effingham Counties Regional Office of Education #3 acts as the administrative agent for certain grant programs that are accounted in the General and Education Fund. Certain programs have separate budgets and are required to report to the Illinois State Board of Education; however, none of the annual budgets are required to be or have been legally adopted. The General Fund and certain programs within the Special Revenue Fund do not have separate budgets. Comparisons of budgeted and actual results are presented as supplemental information. Budget information has been provided in supplementary schedules for the following funds: ROE/ISC Operations, County, Early Childhood 3705-00, Early Childhood 3705-01, Illinois Family Violence Coordinating Council, Truants Alternative/Optional Education, Adult Education & Family Literacy, Regional Safe Schools, Local Area Network, and McKinney Education for Homeless Children.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 2 – CASH

The Bond, Fayette, Effingham Counties Regional Office of Education #3 does not have a formal investment policy. The Bond, Fayette, Effingham Counties Regional Office of Education #3's is allowed to invest in securities as authorized by 30 ILCS-235/2 and 6 and 105 ILCS-5/8-7.

A. DEPOSITS

At June 30, 2007, the carrying amount of the Bond, Fayette, Effingham Counties Regional Office of Education #3's government-wide and Agency fund deposits were \$649,601 and \$597, respectively, and the bank balances were \$656,938 and \$597, respectively. Of the total bank balances as of June 30, 2007, \$200,000 was secured by federal depository insurance and \$457,101 was collateralized by securities pledged by the Bond, Fayette, Effingham Counties Regional Office of Education #3's financial institution on behalf of the Regional Office.

B. INVESTMENTS

The Regional Office of Education #3's only investments are internally pooled in the Illinois Funds Money Market Fund. As of June 30, 2007, the Regional Office of Education #3 had investments with carrying and fair values of \$434 invested in the Illinois Funds Money Market Fund.

CREDIT RISK

At June 30, 2007, the Illinois Funds Money Market Fund had a Standard and Poor's AAAM rating. The pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. Although not subject to direct regulatory oversight, the fund is administered by the Illinois State Treasurer in accordance with the provision of the Illinois Public Funds Investment Act, 30 ILCS 235. All investments are fully collateralized.

INTEREST RATE RISK

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

CONCENTRATION OF CREDIT RISK

Unless specifically authorized by the Treasurer, the Illinois Funds Money Market Fund's investment policy limits investment categories to not exceed 25% of the portfolio with the exception of cash equivalents and U.S. Treasury securities. Further certificates of deposit cannot exceed 10% of any single financial institution's total deposits.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 3 - DEFINED BENEFIT PENSION PLAN

The Bond, Fayette, Effingham Counties Regional Office of Education #3's defined benefit pension plan, Illinois Municipal Retirement (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. The 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 Bond, Fayette, Effingham Counties Regional Office of Education #3 is required to contribute at an actuarially determined rate. The employer rate for calendar year 2006 was 9.44 percent of payroll. The Bond, Fayette, Effingham Counties Regional Office of Education #3 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, 2006, was 5 years.

For December 31, 2006, the Bond, Fayette, Effingham Counties Regional Office of Education #3's annual pension cost of \$54,445 was equal to the Bond, Fayette, Effingham Counties Regional Office of Education #3's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2006 actuarial valuation were based on the 2002-2004 experience study.

A. TREND INFORMATION

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
12/31/06	54,445	100%	\$0
12/31/05	40,432	100%	0
12/31/04	37,136	100%	0
12/31/03	19,150	100%	0
12/31/02	23,968	100%	0
12/31/01	53,864	100%	0
12/31/00	53,572	100%	0
12/31/99	61,162	100%	0
12/31/98	41,055	100%	0
12/31/97	15,015	100%	0

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

The Bond, Fayette, Effingham Counties Regional Office of Education #3 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 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 non-annuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate for the year ended June 30, 2007, 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 employers and members pay a contribution to the Teacher's 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, 2007, 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 Bond, Fayette, Effingham Counties Regional Office of Education #3's TRS-covered employees.

- **On behalf contributions.** The State of Illinois makes employer pension contributions on behalf of the Bond, Fayette, Effingham Counties Regional Office of Education #3. For the year ended June 30, 2007, State of Illinois contributions were based on 9.78 percent of creditable earnings, and the Bond, Fayette, Effingham Counties Regional Office of Education #3 recognized revenue and expenditures of \$34,994 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2006 and June 30, 2005, the State of Illinois contribution rates as percentages of creditable earnings were 7.06 percent (\$22,821) and 11.76 percent (\$33,475) respectively.

The Bond, Fayette, Effingham Counties Regional Office of Education #3 makes other types of employer contributions directly to TRS.

- **2.2 formula contributions.** Employers contribute 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ended June 30, 2007 were \$2,075. Contributions for the years ending June 30, 2006 and June 30, 2005, were \$1,875 and \$1,651, respectively.
- **Federal and trust fund contributions.** When TRS members are paid from federal and trust funds administered by the Bond, Fayette, Effingham Counties Regional Office of Education #3, there is a statutory requirement for the Bond, Fayette, Effingham Counties Regional Office of Education #3 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.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS (Continued)

For the year ended June 30, 2007, the employer pension contribution was 9.78 percent of salaries paid from federal and trust funds. For the year ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the year ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2007 salaries totaling \$15,987 were paid from federal and trust funds that required employer contributions of \$1,564. For the years ended June 30, 2006 and June 30, 2005, required Bond, Fayette, Effingham Counties Regional Office of Education #3 contributions were \$1,153 and \$1,252, respectively.

- **Early Retirement Option.** The Bond, Fayette, Effingham Counties Regional Office of Education #3 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, 2006, provided they meet certain conditions and retire on or before July 1, 2007. If members do not meet these conditions, they can retire under the "Modified ERO" program which requires higher member and employer contributions to TRS. Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO).

Under the ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member's highest salary used in the final average salary calculation. Under the Modified ERO, the maximum employer contribution is 117.5 percent. Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement. For the year ended June 30, 2007, the Bond, Fayette, Effingham Counties Regional Office of Education #3 paid no employer contributions to TRS under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2006 and June 30, 2005, the Bond, Fayette, Effingham Counties Regional Office of Education #3 paid no employer ERO contributions.

- **Salary increases over 6 percent and excess sick leave.** Public Act 94-0004 added two new employer contributions to TRS. If the Regional Office of Education #3 grants salary increases over 6 percent and those salaries are used to calculate a retiree's final average salary, the Regional Office of Education #3 makes a contribution to TRS. The contribution will cover the difference in actuarial cost of the benefit based on actual salary increases and the benefit based on salary increase of up to 6 percent. For the year ended June 30, 2007, the Regional Office of Education #3 paid no employer contributions to TRS for employer contributions due on salary increases in excess of 6 percent. For the year ended June 30, 2006, the Regional Office of Education #3 paid no employer contributions due on salary increases in excess of 6 percent.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 4 - TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS, (Concluded)

If the Regional Office of Education #3 grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the Regional Office of Education #3 makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary used to calculate final average salary, and the TRS total normal cost rate (17.60 percent of salary during the year ended June 30, 2007.) For the year ended June 30, 2007, the Regional Office of Education #3 paid no employer contributions to TRS for sick leave days granted in the excess of the normal annual allotment. For the year ended June 30, 2006, the Regional Office of Education #3 paid no employer contributions granted for sick leave days.

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 year ended June 30, 2006. The report for the year ended June 30, 2007, is expected to be available in late 2007. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, PO 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.

NOTE 5 - INTERFUND ACTIVITY

DUE TO/FROM OTHER FUNDS

Interfund due to/from other fund balances at June 30, 2007 consist of the following individual due to/from other funds in the governmental fund balance sheet. These balances were eliminated in the government-wide Statement of Net Assets.

Due To	Due From	Amount
Early Childhood 3705-00 and 3705-01	Technology	\$ 2,570
Regional System of Support Provider	Technology	4,106
		\$ 6,676

TRANSFERS

There were no interfund transfers to/from other fund balances at June 30, 2007.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 6 - CAPITAL ASSET ACTIVITY

In accordance with GASB Statement No. 34, the Bond, Fayette, Effingham Counties Regional Office of Education #3 has reported capital assets in the government-wide Statement of Net Assets. Purchases are reported as capital outlay in the governmental fund statements. Purchases of business-type activities are capitalized when purchased. The following table provides a summary of changes in total assets, accumulated depreciation, and investment in capital assets for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<u>Governmental Activities</u>				
General Funds:				
General	\$ 4,904	\$ 1,079	\$ -	\$ 5,983
ROE/ISC Operations	50,135	7,093	6,969	50,259
Supervisory	-	2,299	-	2,299
EIU	-	650	-	650
County	7,679	8,198	-	15,877
Total for General Funds	<u>62,718</u>	<u>19,319</u>	<u>6,969</u>	<u>75,068</u>
Education Funds:				
Scientific Literacy	27,557	-	3,093	24,464
Technology	21,089	-	-	21,089
Early Childhood	789	-	-	789
IL Family Violence Coordinating Council	-	869	-	869
Safe To Learn	2,624	-	-	2,624
Title I - Reading First Part B SEA	4,672	-	1,950	2,722
Kaskaskia Area Partnership	3,692	-	-	3,692
Truants Alternative/Optional Education	66,529	12,455	-	78,984
Adult Education & Family Literacy	4,998	-	-	4,998
Regional Safe School	46,975	1,636	-	48,611
Regional System of Support Provider	-	4,149	-	4,149
Local Area Network	732	-	-	732
McKinney Education for Homeless Children	13,732	7,143	-	20,875
ROE State Grant	3,673	-	-	3,673
Tobacco	987	-	-	987
Total Education Funds	<u>198,049</u>	<u>26,252</u>	<u>5,043</u>	<u>219,258</u>
Nonmajor Special Revenue Funds:				
Institute	1,093	-	-	1,093
Total for Nonmajor Special Revenue Funds	<u>1,093</u>	<u>-</u>	<u>-</u>	<u>1,093</u>
Governmental Funds				
Total Capital Assets	261,860	45,571	12,012	295,419
Less: Accumulated Depreciation	<u>234,384</u>	<u>16,067</u>	<u>12,012</u>	<u>238,439</u>
Governmental Funds				
Investment in Capital Assets, Net	<u>\$ 27,476</u>	<u>\$ 29,504</u>	<u>\$ -</u>	<u>\$ 56,980</u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 6 - CAPITAL ASSET ACTIVITY (Concluded)

Business-Type Activities				
ROE Local	\$ 50,747	\$ 4,487	\$ 4,016	\$ 51,218
Business-type Activities				
Total Capital Assets	50,747	4,487	4,016	51,218
Less: Accumulated Depreciation	44,120	1,632	4,016	41,736
Investment in Capital Assets, Net	<u>\$ 6,627</u>	<u>\$ 2,855</u>	<u>\$ -</u>	<u>\$ 9,482</u>

Capital assets are depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended June 30, 2007 of \$16,067 and \$1,632 was charged to the governmental activities and business-type activities, respectively, on the government-wide Statement of Activities. Investment in capital assets is the component of net assets that reports capital assets net of accumulated depreciation.

NOTE 7 - RISK MANAGEMENT

The Bond, Fayette, Effingham Counties Regional Office of Education #3 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. The Bond, Fayette, Effingham Counties Regional Office of Education #3 has purchased commercial insurance to cover these risks. No losses have been incurred in excess of the amounts covered by insurance over the past three years.

NOTE 8 – ON BEHALF PAYMENTS

The State of Illinois paid the following salaries on behalf of the Bond, Fayette, Effingham Counties Regional Office of Education #3:

Regional Superintendent Salary	\$ 84,737
Regional Superintendent Benefits	
(Includes State paid insurance)	20,994
Assistant Regional Superintendent Salary	76,263
Assistant Regional Superintendent Benefits	
(Includes State paid insurance)	17,835
TRS Pension Contributions	<u>34,994</u>
Total	<u>\$234,823</u>

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

These amounts have been recorded in the accompanying financial statements as State revenue and expenditures.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 9 - DUE TO/FROM OTHER GOVERNMENTS

The Bond, Fayette, Effingham Counties Regional Office of Education #3's General Fund, Education Fund, Agency Fund and various grant programs have funds due from various other governmental units which consist of the following:

Due from Other Governments:

General Fund

Local Governments	\$ 5,000
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Education Fund

Local Governments	14,893
Illinois State Board of Education	2,570
Regional Office of Education #50	<u>4,106</u>
Total	<u>\$ 26,569</u>

Due to Other Governments

Agency Fund

Distributive Fund	<u>\$ 597</u>
Total	<u>\$ 597</u>

NOTE 10 - OPERATING LEASE

The Bond, Fayette, Effingham Counties Regional Office of Education #3 has entered into an annual operating lease through June 30, 2007 for its Alternative Education Programs to provide classroom space for the Focus and New Approach Schools and office space for grant programs. Rent expense for 2007 totaled \$42,000.

**REQUIRED SUPPLEMENTAL INFORMATION
(Other than Management Discussion and Analysis)**

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF FUNDING PROGRESS
(UNAUDITED)
JUNE 30, 2007

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	917,833	929,696	11,863	98.72%	576,744	2.06%
12/31/05	775,839	762,148	(13,691)	101.80%	547,120	0.00%
12/31/04	665,643	678,244	12,601	98.14%	497,131	2.53%
12/31/03	623,656	593,361	(30,295)	105.11%	471,671	0.00%
12/31/02	564,345	519,393	(44,952)	108.65%	492,158	0.00%
12/31/01	557,967	439,148	(118,819)	127.06%	504,821	0.00%
12/31/00	466,303	399,147	(67,156)	116.82%	420,832	0.00%
12/31/99	386,223	414,646	28,423	93.15%	370,008	7.68%
12/31/98	265,460	317,522	52,062	83.60%	305,927	17.02%
12/31/97	186,298	249,751	63,453	74.59%	258,619	24.54%

On a market value basis, the actuarial value of assets as of December 31, 2006 is \$973,089. On a market basis, the funded ratio would be 104.67%.

* Digest of changes

The actuarial assumptions used to determine the actuarial accrued liability for 2006 are based on the 2002-2004 Experience Study.

The principal changes were:

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

SLEP Member contribution rate changed from 6.50% to 7.50% effective June 1, 2006.

SUPPLEMENTARY INFORMATION

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF ACCOUNTS
 GENERAL FUND
 JUNE 30, 2007

	General	ROE/ISC Operations	County	EIU	TOTALS
Assets					
Cash and cash equivalents	\$ 27,337	\$ 13	\$ 64,156	\$ 38,612	\$ 130,118
Due from other governments	5,000	-	-	-	5,000
Total Assets	\$ 32,337	\$ 13	\$ 64,156	\$ 38,612	\$ 135,118
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 30,381	\$ 30,381
Deferred Revenue	-	13	51,684	-	51,697
Total Liabilities	-	13	51,684	30,381	82,078
Fund Balances					
Unreserved	32,337	-	12,472	8,231	53,040
Total Fund Balances	32,337	-	12,472	8,231	53,040
Total Liabilities and Fund Balances	\$ 32,337	\$ 13	\$ 64,156	\$ 38,612	\$ 135,118

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GENERAL FUND ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2007

	General	ROE/ISC Operations	County	EIU	TOTALS
Revenues					
Local sources	\$ 36,538	\$ -	\$ 198,030	\$ 109,157	\$ 343,725
State sources	-	72,980	-	-	72,980
On-behalf payments -State	234,823	-	-	-	234,823
Total Revenues	271,361	72,980	198,030	109,157	651,528
Expenditures					
Salaries and benefits	19,077	38,306	147,332	1,125	205,840
Purchased services	7,457	20,983	30,730	102,737	161,907
Supplies and materials	758	6,059	4,643	240	11,700
Capital outlay	1,079	7,093	8,198	650	17,020
Other objects	-	539	-	-	539
On-behalf payments -State	234,823	-	-	-	234,823
Total Expenditures	263,194	72,980	190,903	104,752	631,829
Excess (Deficiency) of Revenues Over Expenditures	8,167	-	7,127	4,405	19,699
Other Financing Sources (Uses)					
Interest	2,315	-	-	-	2,315
Total Other Financing Sources (Uses)	2,315	-	-	-	2,315
Net Change in Fund Balances	10,482	-	7,127	4,405	22,014
Fund Balance - Beginning	21,855	-	5,345	3,826	31,026
Fund Balance - Ending	\$ 32,337	\$ -	\$ 12,472	\$ 8,231	\$ 53,040

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 GENERAL FUND ACCOUNTS
 ROE/ISC OPERATIONS
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
State sources	\$ 72,993	\$ 72,993	\$ 72,980
Total Revenue	72,993	72,993	72,980
EXPENDITURES			
Current:			
Salaries and benefits	43,847	39,634	38,306
Purchased services	23,350	22,280	20,983
Supplies and materials	4,296	4,600	6,059
Capital Outlay	1,000	5,929	7,093
Other objects	500	550	539
Total Expenditures	72,993	72,993	72,980
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING	-	-	-
FUND BALANCE - ENDING	\$ -	\$ -	\$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of December 1, 2005 to November 30, 2006, and December 1, 2006 to November 30, 2007)
 GENERAL FUND ACCOUNTS
 COUNTY
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts				Actual Amounts
	Original		Final		
	12/1/05 to 11/30/06	12/1/06 to 11/30/07	12/1/05 to 11/30/06	12/1/06 to 11/30/07	
REVENUES					
Local sources	\$ 169,760	\$ 195,061	\$ 169,760	\$ 195,061	\$ 198,030
Total revenues	169,760	195,061	169,760	195,061	198,030
EXPENDITURES					
Current:					
Salaries and benefits	122,575	148,256	122,575	148,256	147,332
Purchased services	40,085	39,705	40,085	39,705	30,730
Supplies and materials	3,600	3,600	3,600	3,600	4,643
Capital outlay	3,500	3,500	3,500	3,500	8,198
Total Expenditures	169,760	195,061	169,760	195,061	190,903
NET CHANGE IN FUND BALANCE	-	-	-	-	7,127
FUND BALANCE - BEGINNING	-	-	-	-	5,345
FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ -	\$ 12,472

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 JUNE 30, 2007

	Technology	Early Childhood 3705-00 & 3705-01	Attendance Officer	Illinois Family Violence Coordinating Council	Regional System of Support Provider
ASSETS					
Cash and cash equivalents	\$ 80,787	\$ -	\$ 2,533	\$ 9,608	\$ -
Due from other funds	6,676	-	-	-	-
Due from other governments					
Local	-	-	-	-	-
State	-	2,570	-	-	4,106
TOTAL ASSETS	\$ 87,463	\$ 2,570	\$ 2,533	\$ 9,608	\$ 4,106
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accrued payroll and employee benefits	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	2,570	-	-	4,106
Deferred revenue	-	-	-	-	-
Total Liabilities	-	2,570	-	-	4,106
FUND BALANCES					
Unreserved	87,463	-	2,533	9,608	-
Total Fund Balance	87,463	-	2,533	9,608	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 87,463	\$ 2,570	\$ 2,533	\$ 9,608	\$ 4,106

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 JUNE 30, 2007

	Standards Aligned Classroom	Cooperative Curriculum	Educational Sanctions by Probation	Alternative Education State Aid	Truants Alternative / Optional Education
ASSETS					
Cash and cash equivalents	\$ -	\$ 3,725	\$ 2,883	\$ 87,948	\$ 68,922
Due from other funds	-	-	-	-	-
Due from other governments					
Local	-	-	-	-	-
State	-	-	-	-	-
TOTAL ASSETS	\$ -	\$ 3,725	\$ 2,883	\$ 87,948	\$ 68,922
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accrued payroll and employee benefits	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	2,883	-	-
Total Liabilities	-	-	2,883	-	-
FUND BALANCES					
Unreserved	-	3,725	-	87,948	68,922
Total Fund Balance	-	3,725	-	87,948	68,922
TOTAL LIABILITIES AND FUND BALANCE	\$ -	\$ 3,725	\$ 2,883	\$ 87,948	\$ 68,922

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 JUNE 30, 2007

	Adult Education & Family Literacy	Regional Safe Schools	Local Area Network	McKinney Education for Homeless Children	Title IV Community Service
ASSETS					
Cash and cash equivalents	\$ 2,621	\$ 32,734	\$ 12,698	\$ -	\$ -
Due from other funds	-	-	-	-	-
Due from other governments					
Local	-	-	14,893	-	-
State	-	-	-	-	-
TOTAL ASSETS	\$ 2,621	\$ 32,734	\$ 27,591	\$ -	\$ -
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accrued payroll and employee benefits	\$ 2,621	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total Liabilities	2,621	-	-	-	-
FUND BALANCES					
Unreserved	-	32,734	27,591	-	-
Total Fund Balance	-	32,734	27,591	-	-
TOTAL LIABILITIES AND FUND BALANCE	\$ 2,621	\$ 32,734	\$ 27,591	\$ -	\$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 JUNE 30, 2007

	Asthma Athletes and Asthma Education Initiative	Kindergarten Standards	TOTAL
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 304,459
Due from other funds	-	-	6,676
Due from other governments			
Local	-	-	14,893
State	-	-	6,676
TOTAL ASSETS	\$ -	\$ -	\$ 332,704
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accrued payroll and employee benefits	\$ -	\$ -	\$ 2,621
Due to other funds	-	-	6,676
Deferred revenue	-	-	2,883
Total Liabilities	-	-	12,180
FUND BALANCES			
Unreserved	-	-	320,524
Total Fund Balance	-	-	320,524
TOTAL LIABILITIES AND FUND BALANCE	\$ -	\$ -	\$ 332,704

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2007

	Technology	Early Childhood 3705-00 & 3705-01	Attendance Officer	Illinois Family Violence Coordinating Council	Regional System of Support Provider
REVENUES					
Local sources	\$ -	\$ -	\$ 4,200	\$ 8,415	\$ -
State sources	-	57,999	-	22,730	5,983
Federal sources	-	-	-	-	4,893
Total Revenue	-	57,999	4,200	31,145	10,876
EXPENDITURES					
Current:					
Salaries and benefits	-	50,444	2,951	14,072	4,128
Purchased services	-	6,150	2,223	11,598	794
Supplies and materials	-	1,405	110	1,646	1,805
Capital outlay	-	-	-	869	4,149
Payments to other governments	-	-	-	-	-
Other objects	-	-	-	-	-
Total Expenditures	-	57,999	5,284	28,185	10,876
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	(1,084)	2,960	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Interest	-	-	-	-	-
Total Other Sources (Uses) of Financial Resources	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	-	(1,084)	2,960	-
FUND BALANCE - BEGINNING	87,463	-	3,617	6,648	-
FUND BALANCE - ENDING	\$ 87,463	\$ -	\$ 2,533	\$ 9,608	\$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2007

	Standards Aligned Classroom	Cooperative Curriculum	Educational Sanctions by Probation	Alternative Education State Aid	Truants Alternative / Optional Education
REVENUES					
Local sources	\$ -	\$ 2,555	\$ -	\$ 76,674	\$ 4,185
State sources	-	-	-	-	321,857
Federal sources	203,529	-	-	-	-
Total Revenue	203,529	2,555	-	76,674	326,042
EXPENDITURES					
Current:					
Salaries and benefits	25,774	-	-	26,033	252,817
Purchased services	72,591	3,561	-	38,278	68,697
Supplies and materials	91	-	-	-	12,027
Capital outlay	-	-	-	-	12,455
Payments to other governments	105,000	-	-	-	-
Other objects	73	-	-	-	-
Total Expenditures	203,529	3,561	-	64,311	345,996
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	(1,006)	-	12,363	(19,954)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Interest	-	-	-	1,526	-
Total Other Sources (Uses) of Financial Resources	-	-	-	1,526	-
NET CHANGE IN FUND BALANCES	-	(1,006)	-	13,889	(19,954)
FUND BALANCE - BEGINNING	-	4,731	-	74,059	88,876
FUND BALANCE - ENDING	\$ -	\$ 3,725	\$ -	\$ 87,948	\$ 68,922

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2007

	Adult Education & Family Literacy	Regional Safe Schools	Local Area Network	McKinney Education for Homeless Children	Title IV Community Service
REVENUES					
Local sources	\$ -	\$ 31,509	\$ 63,755	\$ -	\$ -
State sources	36,687	262,051	-	-	-
Federal sources	27,799	4,204	-	234,279	3,000
Total Revenue	64,486	297,764	63,755	234,279	3,000
EXPENDITURES					
Current:					
Salaries and benefits	36,335	236,182	51,653	82,759	-
Purchased services	18,777	37,331	8,841	75,612	2,126
Supplies and materials	9,374	12,449	-	12,765	874
Capital outlay	-	1,636	-	7,143	-
Payments to other governments	-	-	-	56,000	-
Other objects	-	-	-	-	-
Total Expenditures	64,486	287,598	60,494	234,279	3,000
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	10,166	3,261	-	-
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Interest	-	-	-	-	-
Total Other Sources (Uses) of Financial Resources	-	-	-	-	-
NET CHANGE IN FUND BALANCES	-	10,166	3,261	-	-
FUND BALANCE - BEGINNING	-	22,568	24,330	-	-
FUND BALANCE - ENDING	\$ -	\$ 32,734	\$ 27,591	\$ -	\$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 FOR THE YEAR ENDED JUNE 30, 2007

	Asthma Athletes and Asthma Education Initiative	Kindergarten Standards	TOTAL
REVENUES			
Local sources	\$ 110	\$ 1,800	\$ 193,203
State sources	-	-	707,307
Federal sources	-	-	477,704
Total Revenue	110	1,800	1,378,214
EXPENDITURES			
Current:			
Salaries and benefits	-	-	783,148
Purchased services	-	1,534	348,113
Supplies and materials	110	266	52,922
Capital outlay	-	-	26,252
Payments to other governments	-	-	161,000
Other objects	-	-	73
Total Expenditures	110	1,800	1,371,508
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	-	-	6,706
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Interest	-	-	1,526
Total Other Sources (Uses) of Financial Resources	-	-	1,526
NET CHANGE IN FUND BALANCES	-	-	8,232
FUND BALANCE - BEGINNING	-	-	312,292
FUND BALANCE - ENDING	\$ -	\$ -	\$ 320,524

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 EARLY CHILDHOOD 3705-00
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
State sources	\$ 22,601	\$ 22,827	\$ 22,827
Total Revenue	<u>22,601</u>	<u>22,827</u>	<u>22,827</u>
EXPENDITURES			
Current:			
Salaries and benefits	20,300	20,300	20,220
Purchased services	2,000	2,226	2,367
Supplies and materials	301	301	240
Total Expenditures	<u>22,601</u>	<u>22,827</u>	<u>22,827</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 EARLY CHILDHOOD 3705-01
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
State sources	\$ 34,824	\$ 35,172	\$ 35,172
Total Revenue	34,824	35,172	35,172
EXPENDITURES			
Current:			
Salaries and benefits	31,380	31,380	30,224
Purchased services	2,944	3,292	3,783
Supplies and materials	500	500	1,165
Total Expenditures	34,824	35,172	35,172
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING	-	-	-
FUND BALANCE - ENDING	\$ -	\$ -	\$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of January 1, 2006 to December 31, 2006 (#05-FVC004-97), and
 January 1, 2007 to December 31, 2007 (#06-FVC004-97))
 EDUCATION FUND ACCOUNTS
 ILLINOIS FAMILY VIOLENCE COORDINATING COUNCIL
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts				Actual Amounts
	Original		Final		
	1/1/06 to 12/31/06	1/1/07 to 12/31/07	1/1/06 to 12/31/06	1/1/07 to 12/31/07	
REVENUES					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ 8,415
State sources	19,500	19,500	19,500	19,500	22,730
Total Revenues	19,500	19,500	19,500	19,500	31,145
EXPENDITURES					
Current:					
Salaries and benefits	13,814	14,050	13,814	14,051	14,072
Purchased services	3,700	3,700	3,700	3,891	11,598
Supplies and materials	1,986	1,750	1,986	1,558	1,646
Capital outlay	-	-	-	-	869
Total Expenditures	19,500	19,500	19,500	19,500	28,185
NET CHANGE IN FUND BALANCE	-	-	-	-	2,960
FUND BALANCE - BEGINNING	-	-	-	-	6,648
FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ -	\$ 9,608

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 TRUANTS ALTERNATIVE/OPTIONAL EDUCATION
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Local sources	\$ -	\$ -	\$ 4,185
State sources	110,151	110,151	321,857
Total Revenues	110,151	110,151	326,042
EXPENDITURES			
Current:			
Salaries and benefits	92,024	92,024	252,817
Purchased services	14,285	14,285	68,697
Supplies and materials	3,842	3,842	12,027
Capital outlay	-	-	12,455
Total Expenditures	110,151	110,151	345,996
NET CHANGE IN FUND BALANCE	-	-	(19,954)
FUND BALANCE - BEGINNING	-	-	88,876
FUND BALANCE - ENDING	\$ -	\$ -	\$ 68,922

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 ADULT EDUCATION & FAMILY LITERACY
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
State sources	\$ 30,000	\$ 36,687	\$ 36,687
Federal sources	26,000	27,799	27,799
 Total Revenues	 56,000	 64,486	 64,486
EXPENDITURES			
Current:			
Salaries and benefits	37,500	37,500	36,335
Purchased services	11,941	18,769	18,777
Supplies and materials	6,559	8,217	9,374
Total Expenditures	56,000	64,486	64,486
 NET CHANGE IN FUND BALANCE	 -	 -	 -
 FUND BALANCE - BEGINNING	 -	 -	 -
 FUND BALANCE - ENDING	 \$ -	 \$ -	 \$ -

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 REGIONAL SAFE SCHOOLS
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Local sources	\$ -	\$ -	\$ 31,509
State sources	127,474	127,474	262,051
Federal sources	-	-	4,204
	<u>127,474</u>	<u>127,474</u>	<u>297,764</u>
EXPENDITURES			
Current:			
Salaries and benefits	122,792	122,792	236,182
Purchased services	3,212	3,212	37,331
Supplies and materials	1,470	1,470	12,449
Capital outlay	-	-	1,636
Total Expenditures	<u>127,474</u>	<u>127,474</u>	<u>287,598</u>
NET CHANGE IN FUND BALANCE	-	-	10,166
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>22,568</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,734</u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to June 30, 2007)
 EDUCATION FUND ACCOUNTS
 LOCAL AREA NETWORK
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Local sources	\$ 59,523	\$ 59,523	\$ 63,755
Total Revenues	59,523	59,523	63,755
EXPENDITURES			
Current:			
Salaries and benefits	51,666	51,666	51,653
Purchased services	5,357	5,357	8,841
Supplies and materials	2,500	2,500	-
Total Expenditures	59,523	59,523	60,494
NET CHANGE IN FUND BALANCE	-	-	3,261
FUND BALANCE - BEGINNING	-	-	24,330
FUND BALANCE - ENDING	\$ -	\$ -	\$ 27,591

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 BUDGETARY COMPARISON SCHEDULE
 (For the Period of July 1, 2006 to August 31, 2007)
 EDUCATION FUND ACCOUNTS
 MCKINNEY EDUCATION FOR HOMELESS CHILDREN
 FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual Amounts
	Original	Final	
REVENUES			
Federal sources	\$ 216,903	\$ 226,489	\$ 234,279
Total Revenues	<u>216,903</u>	<u>226,489</u>	<u>234,279</u>
EXPENDITURES			
Current:			
Salaries and benefits	80,450	82,319	82,759
Purchased services	130,300	129,030	75,612
Supplies and materials	5,153	9,150	12,765
Payments to other governments	-	-	56,000
Capital outlay	1,000	5,990	7,143
Total Expenditures	<u>216,903</u>	<u>226,489</u>	<u>234,279</u>
NET CHANGE IN FUND BALANCE	-	-	-
FUND BALANCE - BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2007

	<u>Institute</u>	<u>General Education Development</u>	<u>ROE School Bus Driver Training</u>	<u>Supervisory</u>	<u>TOTALS</u>
ASSETS					
Cash and cash equivalents	<u>\$ 51,936</u>	<u>\$ 13,280</u>	<u>\$ 3,460</u>	<u>\$ 1,582</u>	<u>\$ 70,258</u>
TOTAL ASSETS	<u><u>\$ 51,936</u></u>	<u><u>\$ 13,280</u></u>	<u><u>\$ 3,460</u></u>	<u><u>\$ 1,582</u></u>	<u><u>\$ 70,258</u></u>
LIABILITIES AND FUND BALANCE					
FUND BALANCE					
Unreserved	<u>\$ 51,936</u>	<u>\$ 13,280</u>	<u>\$ 3,460</u>	<u>\$ 1,582</u>	<u>\$ 70,258</u>
TOTAL FUND BALANCE	<u><u>\$ 51,936</u></u>	<u><u>\$ 13,280</u></u>	<u><u>\$ 3,460</u></u>	<u><u>\$ 1,582</u></u>	<u><u>\$ 70,258</u></u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007

	Institute	General Education Development	ROE School Bus Driver Training	Supervisory	TOTALS
REVENUES					
Local sources	\$ 22,250	\$ 5,076	\$ 1,205	\$ -	\$ 28,531
State sources	-	13,729	480	3,000	17,209
Total Revenues	22,250	18,805	1,685	3,000	45,740
EXPENDITURES					
Salaries and benefits	-	12,893	57	-	12,950
Purchased services	20,153	2,246	2,316	1,230	25,945
Supplies and materials	-	3,845	33	457	4,335
Capital outlay	-	-	-	2,299	2,299
Other objects	-	90	-	-	90
Total Expenditures	20,153	19,074	2,406	3,986	45,619
Excess (Deficiency) of Revenues Over Expenditures	2,097	(269)	(721)	(986)	121
FUND BALANCES - BEGINNING	49,839	13,549	4,181	2,568	70,137
FUND BALANCES - ENDING	\$ 51,936	\$ 13,280	\$ 3,460	\$ 1,582	\$ 70,258

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance 7/1/2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 6/30/2007</u>
<u>DISTRIBUTIVE</u>				
<u>ASSETS</u>				
Cash and cash equivalents	\$ 599	\$ 958,766	\$ 958,768	\$ 597
Total Assets	<u>\$ 599</u>	<u>\$ 958,766</u>	<u>\$ 958,768</u>	<u>\$ 597</u>
<u>LIABILITIES</u>				
Due to other governmental units	\$ 599	\$ 958,766	\$ 958,768	\$ 597
Total Liabilities	<u>\$ 599</u>	<u>\$ 958,766</u>	<u>\$ 958,768</u>	<u>\$ 597</u>

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURER'S AND OTHER ENTITIES
 DISTRIBUTIVE FUND
 FOR THE YEAR ENDED JUNE 30, 2007

Description	Educational Services	Focus School	Regional Office Of Education	The New Approach School	Total
General State Aid 18-8	\$ -	\$ 134,577	\$ -	\$ 211,706	\$ 346,283
State Free Lunch & Breakfast	-	-	-	155	155
ROE School Bus Driver Training	-	-	480	-	480
Truants Alternative/Optional Ed.	-	-	-	110,151	110,151
Regional Safe Schools	-	127,474	-	-	127,474
Early Childhood Block Grant	56,761	-	-	-	56,761
ROE/ISC Operations	72,993	-	-	-	72,993
Supervisory Fund	-	-	3,000	-	3,000
National School Lunch Program	-	-	-	4,204	4,204
School Breakfast Program	-	-	-	3,000	3,000
McKinney Education for Homeless Children	234,174	-	-	-	234,174
Interest	93	-	-	-	93
TOTAL	\$ 364,021	\$ 262,051	\$ 3,480	\$ 329,216	\$ 958,768

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-Through Grantor/ <u>Program or Cluster Title</u>	CFDA <u>Number</u>	Project # (1st eight digits) or <u>Contract #</u>	Federal <u>Expenditures</u> 7/1/06 - 6/30/07
U.S. Dept. of Education			
Passed through Illinois State Board of Education:			
McKinney Education for Homeless Children	84.196A	06-4920-00	\$ 7,790
McKinney Education for Homeless Children	84.196A	07-4920-00	226,489
Total McKinney Education for Homeless Children			234,279
Total U.S. Dept of Education through the Illinois State Board of Education			234,279
Corporation for National and Community Services			
Passed through Illinois State Board of Education:			
Learn and Serve America	94.004	07-4910-00	3,000
Total Corporation for National and Community Services			3,000
Passed through Illinois State Board of Education:			3,000
U.S. Dept. of Agriculture			
Passed through Illinois State Board of Education			
National School Lunch Program	10.555	06-4210-00	505
National School Lunch Program	10.555	07-4210-00	3,699
Total National School Lunch Program			4,204
Total U.S. Dept of Agriculture through the Illinois State Board of Education			4,204
U.S. Dept. of Education			
Passed through Illinois Community College Board			
Adult Education and Family Literacy	84.002A	N/A	27,799
Total U.S. Dept of Education through the Illinois Community College Board			27,799
U.S. Dept. of Education			
Passed through Clark, Coles, Cumberland, Douglas, Edgar, Moultrie & Shelby Counties Regional Office of Education # 11			
Standards Aligned Classroom	84.010A	07-4331-00	203,529 (M)
Total U.S. Dept of Education through the Clark, Coles, Cumberland, Douglas, Edgar, Moultrie & Shelby Counties Regional Office of Education #11			203,529
U.S. Dept. of Education			
Passed through St. Clair County Regional Office of Education #50			
Title I School Improvement and Accountability	84.010A	07-4331-SS	4,893
Total U.S. Dept. of Education passed through St. Clair County Regional Office of Education #50			4,893
Total Expenditures of Federal Awards			\$ 477,704

(M) Program was audited as a major program.

The accompanying notes are an integral part of this schedule.

BOND, FAYETTE, EFFINGHAM COUNTIES REGIONAL OFFICE OF EDUCATION #3
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1. REPORTING ENTITY BASIS OF PRESENTATION AND ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Bond, Fayette, Effingham Counties Regional Office of Education #3 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented on this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2. SUBRECIPIENTS

Of the federal expenditures presented in the schedule, Regional Office of Education #3 provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA #</u>	<u>Amount provided to subrecipients</u>
Standards Aligned Classroom	84.010A	\$ 105,000
McKinney Education for Homeless Children	84.196A	\$ 56,000

NOTE 3. DESCRIPTION OF MAJOR FEDERAL PROGRAM

Standards Aligned Classroom - This program provides funding for consultants to assist teachers of participating schools in developing learning teams that studied assessment literacy.

NOTE 4. NON-CASH ASSISTANCE

None.

NOTE 5. AMOUNT OF INSURANCE

None.

NOTE 6. LOANS OR LOAN GUARANTEES OUTSTANDING

None.