

STATE OF ILLINOIS
HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

FINANCIAL AUDIT
(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Year Ended June 30, 2006

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

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HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

OFFICIALS

Regional Superintendent
(Current and during the audit period)

Dr. Glen W. Braden

Assistant Regional Superintendent
(During the audit period)

Ms. Jodi Scott

Offices are located at:

200 West Broadway
Monmouth, Illinois 61462

PASS/Adult Education
1291 N. 6th Street, Suite 100
Monmouth, IL 61462

Henderson County Even Start
West Central Early Childhood Center
Media, IL 61460

Warren County Even Start/Early Childhood Block Grant
Central Early Childhood Center
401 East 2nd Avenue
Monmouth, IL 61462

High Roads Advantage
2004 SE 3rd Street
Aledo, IL 61231

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

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.

AUDITOR'S REPORTS

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

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	5	5
Repeated audit findings	3	4
Prior recommendations implemented or not repeated	2	4

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u> <u>Findings (Government Auditing Standards)</u>
06-1	12	Control over compliance with laws and regulations
06-2	15	Inadequate accounting software and internal controls
06-3	17	Inadequate controls over property and equipment
06-4	19	Unrecorded bank accounts
06-5	20	Failure to fully insure and collateralize cash balances

Prior Findings Not Repeated

05-4	28	Inadequate documentation of salary rates
05-5	28	Inadequate chart of accounts

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

COMPLIANCE REPORT SUMMARY - CONTINUED

EXIT CONFERENCE

Henderson, Mercer and Warren Counties Regional Office of Education #27 waived having an exit conference in a letter dated March 15, 2007. Responses to the recommendations were provided by the ROE management in correspondence received March 17, 2007.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying basic financial statements of the Henderson, Mercer and Warren Counties Regional Office of Education #27 was performed by Sulaski and Webb, CPAs.

Based on their audit, the auditors expressed an unqualified opinion on the agency's basic financial statements.

Independent Auditor's 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 Henderson, Mercer and Warren Counties Regional Office of Education #27, as of and for the year ended June 30, 2006, which collectively comprise the Henderson, Mercer and Warren Counties Regional Office of Education #27's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Henderson, Mercer and Warren Counties Regional Office of Education #27's management. Our responsibility is to express opinions on these financial statements based on our audit.

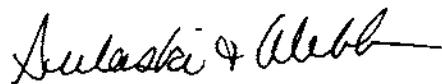
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Henderson, Mercer and Warren Counties Regional Office of Education #27, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 22, 2006 on our consideration of the Henderson, Mercer and Warren Counties Regional Office of Education #27'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 29 through 34 and 64 are not a required part of the basic financial statements but is 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 Henderson, Mercer and Warren Counties Regional Office of Education #27's basic financial statements. The combining and individual non-major fund financial statements, budgetary comparison schedules, and the Schedule of Disbursements to School District Treasurers and Other Entities – Distributive Fund 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 – Distributive Fund 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.



Sulaski and Webb
Certified Public Accountants

November 22, 2006

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards*

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Henderson, Mercer and Warren Counties Regional Office of Education #27, as of and for the year ended June 30, 2006, which collectively comprise the Henderson, Mercer and Warren Counties Regional Office of Education #27's basic financial statements and have issued our report thereon dated November 22, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

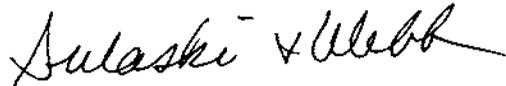
In planning and performing our audit, we considered the Henderson, Mercer and Warren Counties Regional Office of Education #27's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Henderson, Mercer and Warren Counties Regional Office of Education #27's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-2, 06-3, 06-4, and 06-5.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Henderson, Mercer and Warren Counties Regional Office of Education #27's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we reported on the accompanying Schedule of Findings and Questioned Costs as item 06-1.

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



Sulaski and Webb
Certified Public Accountants

November 22, 2006

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 Henderson, Mercer and Warren Counties Regional Office of Education #27 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Henderson, Mercer and Warren Counties Regional Office of Education #27'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 Henderson, Mercer and Warren Counties Regional Office of Education #27's management. Our responsibility is to express an opinion on the Henderson, Mercer and Warren Counties Regional Office of Education #27'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 Henderson, Mercer and Warren Counties Regional Office of Education #27'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 Henderson, Mercer and Warren Counties Regional Office of Education #27's compliance with those requirements.

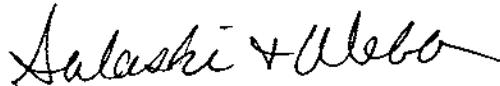
In our opinion, the Henderson, Mercer and Warren Counties Regional Office of Education #27 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Henderson, Mercer and Warren Counties Regional Office of Education #27 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 Henderson, Mercer and Warren Counties Regional Office of Education #27's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133 criteria as required by *Guidelines to Auditing and Reporting for a Regional Office of Education*.

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

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



Sulaski and Webb
Certified Public Accountants

November 22, 2006

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section I – Summary of the Auditor’s Results

Financial Statements

- (1) An unqualified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- (2) Four reportable conditions disclosed during the audit of the financial statements are reported in the *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*. None of the reportable conditions identified is considered to be a material weakness.
- (3) No instances of noncompliance material to the financial statements were disclosed during the audit.

Federal Awards:

- (4) No reportable conditions in internal control over major federal award programs were disclosed during the audit and reported in the *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*.
- (5) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (6) No audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 were disclosed during the audit.
- (7) The major program was as follows:
- CFDA Number 84.213C – Even Start
- (8) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (9) Henderson, Mercer and Warren Counties Regional Office of Education #27 was not determined to be a low-risk auditee.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings

Finding No. 06-1
Part A Repeated From
05-1

Control Over Compliance with Laws and Regulations

Criteria/Specific Requirements:

- A. The Illinois School Code 105 ILCS 5/3-14.11 states that the Regional Superintendent shall examine at least once each year all books, accounts, and vouchers of every school treasurer in his educational service region, and if he finds any irregularities in them, to report them at once, in writing, to the trustees in Class II county school units, to the respective school boards of those school districts which form a part of a Class II county school unit but which are not subject to the jurisdiction of the trustees of schools of any township in which any such district is located, or to the respective school boards of the district in Class I county school units whose duty it shall be to take immediately such action as the case demands.

This mandate has existed in its current form since at least 1953.

- B. The Illinois School Code 105 ILCS 5/3-5 states that the county superintendent shall present under oath or affirmation to the county board at its meeting in September and as nearly quarterly thereafter as it may have regular or special meetings, a report of all his acts as county superintendent, including a list of all the schools visited with the dates of visitation.

This mandate has existed in its current form since at least 1953.

- C. The Illinois School Code 105 ILCS 5/3-14.5 requires the Regional Superintendent to visit each public school in the county at least once a year, noting the methods of instruction, the branches taught, the text-books used, and the discipline, government and general condition of the schools.

This mandate has existed in its current form since at least 1953.

Conditions:

- A. The Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent signs off on the Annual Financial Reports from the school districts in his region. In addition, the ROE receives a spreadsheet from the Illinois State Board of Education (ISBE) that outlines all of the school districts and their audit exceptions, if any. The ROE follows up with school districts that have exceptions, documents the corrective action, and forwards it to ISBE.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-1
Part A Repeated From
05-1

Control Over Compliance with Laws and Regulations - Continued

While these are reviews involving the finances of school treasurers, they are not in the level of detail required by 105 ILCS 5/3-14.11.

- B. The ROE did not present at the September county board meetings and as nearly quarterly thereafter, a report of all his acts including a list of all the schools visited and the dates of visitation. The ROE provides the county boards with its Report of Official Acts and Duties on an annual basis. This report is not updated quarterly and does not contain all information required in the statute.
- C. The Regional Superintendent annually visits each public school in his region to inspect the general condition of the school. He also performs compliance inspections for each public school in his region on a rotational basis every three years instead of annually. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.

Effect:

The ROE did not comply with statutory requirements.

Causes:

- A. The level of financial review performed by the Regional Superintendent was not adequate to comply with the statute.
- B. The Regional Superintendent does present an annual report to the boards, but the Superintendent was unaware of the specific details required to be included in the report.
- C. The Regional Superintendent stated that the periodic compliance visits completed at the public schools were sufficient to satisfy the statutory requirement.

Auditor's Recommendations:

- A. The Henderson, Mercer and Warren Counties Regional Office of Education #27 should comply with the requirements of 105 ILCS 5/3-14.11.
- B. The Regional Superintendent should attend the county board meetings in September and quarterly thereafter and present a report of all his acts including a list of all the schools visited and dates of visitation as required by 105 ILCS 5/3-5.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-1
Part A Repeated From
05-1

Control Over Compliance with Laws and Regulations - Continued

- C. The Regional Superintendent should visit each public school annually to review all items required by 105 ILCS 5/3-14.5.

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

Management's Responses:

- A. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 5/3-7 of the Illinois School Code is a more current, thorough, and comprehensive requirement concerning a public school district's financial transactions. As a result, the two parties working together will seek legislation to repeal section 5/3-14.11 of the Illinois School Code.
- B. The Regional Superintendent will present to the county boards in September and quarterly thereafter a report of all his acts including a list of all the schools visited and dates of visitation as required by 105 ILCS 5/3-5.
- C. The Illinois Association of Regional Superintendents of Schools and the Illinois State Board of Education have agreed to seek legislation to remove duplicative and/or obsolete sections of the Illinois School Code. Both parties agree that section 1.20 of the 23rd Illinois Administrative Code is a more current, thorough, and comprehensive requirement concerning visitation of public schools by the Regional Superintendent. As a result, the two parties working together will seek legislation to repeal section 5/3-14.5 of the Illinois School Code.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-2

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, the Henderson, Mercer and Warren Counties Regional Office of Education #27 (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. The 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. The ROE maintains eleven different general ledger systems to account for the operations of the various programs it administers. Some of the ROE's programs are combined into the general ledger systems. The software package allows for the revenues and expenses of the ROE's programs to be accounted for separately, but combines all assets and liabilities.

Effect:

With eleven 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.

Cause:

The ROE was unaware of the requirements set forth in the Regional Office of Education Accounting Manual and did not maintain an adequate accounting system.

Auditor's Recommendation:

The Henderson, Mercer and Warren Counties Regional Office of Education #27 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.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-2

Inadequate Accounting Software and Internal Controls - Continued

Management's Response:

We agree with the recommendation. We will implement an accounting software program that will provide the necessary controls and reporting features required for proper fund accounting. This program will be installed at both the ROE's main office and at the Progressive Alternative Secondary School.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-3
Repeated from 05-2, 04-3,
and 03-3

Inadequate Controls over Property and Equipment

Criteria/Specific Requirement:

The Regional Office of Education (ROE) Accounting Manual requires each ROE to maintain detailed fixed asset records for both accounting purposes as well as insurance purposes, for fixed assets costing \$500 or more. Generally Accepted Accounting Principles require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be maintained.

The ROE Accounting Manual also states that the fixed asset inventory records should include: the inventory control number; major asset class; function and activity; reference to acquisition source document; acquisition date; vendor; short description of asset; unit charged with custody; location, fund and account from which purchased; method of acquisition; estimated useful life and method of depreciation; estimated salvage value; and date, method, and authorization of disposition.

In addition, sound internal controls require that policies and procedures on fixed assets should cover acquisition and tagging, recording and reporting, depreciation, transfers and dispositions, and annual physical inventory, and that they should be formally documented and consistently applied.

Condition:

The Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) did not have adequate controls over fixed assets.

In our tests of fixed assets at the Progressive Alternative Secondary School (PASS) location, we noted that the fixed asset listings did not have complete information as to the function and activity; reference to the acquisition source document; acquisition date; acquisition cost; vendor; unit charged with custody; location; fund and account from which purchased; and method of acquisition.

A physical inventory was taken at the end of the fiscal year by PASS personnel. Each teacher and employee verified the inventory for their assigned rooms. Most of the items we selected for observation testing had property tags, but these property tags were not referenced to the fixed asset listing. The fixed asset listing contained only a description of the item and the location.

Effect:

The absence of a sound system of internal controls over fixed assets can result in inaccurate reporting of fixed assets and inadequate physical control for equipment items. An incomplete fixed asset listing does not provide an adequate basis for physical control and losses may occur without being detected.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-3
Repeated from 05-2, 04-3,
and 03-3

Inadequate Controls over Property and Equipment - Continued

Cause:

ROE personnel at PASS stated that many of the fixed asset items they possess were donated and they have not assigned a value to them.

Auditor's Recommendation:

The Henderson, Mercer and Warren Counties Regional Office of Education #27 should adhere to the ROE Accounting Manual to effectively and efficiently monitor property acquisitions, transfers and disposals, and provide for accurate reporting of fixed asset balances.

The fixed asset listing should include all the details required by the ROE Accounting Manual and should be checked for accuracy and existence through an annual physical inventory. A reconciliation should be performed between the fixed asset listing and the recorded capital outlay expenditures for each year.

Management's Response:

We agree with the recommendation. We currently have fixed asset listings for both the ROE main office and the PASS location. These listings will be reviewed and updated as appropriate with all available information for existing items. All new items will be added to the listings with all required information.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-4
Repeated from 05-3, 04-5,
and 03-5

Unrecorded Bank Accounts

Criteria/Specific Requirement:

Good business practices and sound internal controls require that accounting records accurately and completely record all assets and all transactions of the entity.

Condition:

During our testing of cash accounts, we noted three bank accounts with balances totaling \$40,414 as of June 30, 2006 not recorded in the general ledger. Two of these accounts were time and savings accounts opened in prior years and one was a checking account opened in the current year. The accounts have been included in the cash balances reported in the financial statements through adjusting entries.

Effect:

Failure to record bank accounts in the general ledger results in inaccurate financial reporting and increases the risk of undetected misappropriation of assets.

Cause:

The bank accounts established in prior years remain unrecorded, as the Regional Office staff was not aware of the proper journal entries to record these balances.

Auditor's Recommendation:

The Henderson, Mercer and Warren Counties Regional Office of Education #27 should immediately record these bank accounts in the general ledger and properly account for all transactions of these accounts.

Management's Response:

We agree with the recommendation. The ROE will add these bank accounts to the QuickBooks data.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section II – Financial Statement Findings - Continued

Finding No. 06-5

Failure to Fully Insure and Collateralize Cash Balances

Criteria/Specific Requirement:

The Public Funds Deposit Act (30 ILCS 225/1) gives the Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) the authorization to request financial institutions to pledge collateral for deposits in excess of the federally insured limit. In addition, prudent business practice requires that all cash and investments held by financial institutions for the ROE be adequately covered by depository insurance or collateral.

Condition:

As of June 30, 2006, the ROE had five cash accounts with bank balances totaling \$234,444 at one financial institution. The Federal Deposit Insurance Company (FDIC) covers up to a maximum of \$100,000. The financial institution pledged collateral with a market value at June 30, 2006 of \$59,676. The ROE did not have depository insurance or collateral for \$74,768.

Effect:

Failure to fully insure and collateralize the full amount of cash and investment balances may result in monetary losses to the ROE in the event of a bank failure.

Cause:

According to ROE management, the unsecured deposits were an oversight. The ROE has an informal agreement with the financial institution to pledge securities as collateral for deposits that exceed the FDIC insurance limits; however, the amount pledged was insufficient to secure all deposits at June 30, 2006.

Auditor's Recommendation:

The Henderson, Mercer and Warren Counties Regional Office of Education #27 should monitor collateral requirements for all its bank accounts. The ROE should also establish controls for confirming amounts pledged by the financial institutions and consider making a formal arrangement with the financial institution to automatically pledge securities for any deposit amounts in excess of the FDIC insurance amounts.

Management's Response:

We agree with the recommendation. The ROE will work with the financial institution to ensure that all bank deposits in excess of FDIC insurance amounts are collateralized.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

Section III – Federal Award Findings

INSTANCES OF NONCOMPLIANCE:

None

REPORTABLE CONDITIONS:

None

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-1

Conditions: A. The Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) is not examining all books, accounts, and vouchers of every school treasurer in his educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent signs off on the Annual Financial Reports from the school districts in his region. In addition, the ROE receives a spreadsheet from the Illinois State Board of Education (ISBE) that outlines all of the school districts and their audit exceptions, if any. The ROE follows up with school districts that have exceptions, documents the corrective action, and forwards it to ISBE.

While these are reviews involving the finances of school treasurers, they are not in the level of detail required by 105 ILCS 5/3-14.11.

- B. The ROE did not present at the September county board meetings and as nearly quarterly thereafter, a report of all of his acts including a list of all the schools visited and the dates of visitation. The ROE provides the county boards with its Report of Official Acts and Duties on an annual basis. This report is not updated quarterly and does not contain all information required in the statute.
- C. The Regional Superintendent annually visits each public school in his region to inspect the general condition of the school. He also performs compliance inspections for each public school in his region on a rotational basis every three years instead of annually. While the Illinois Public School Accreditation Process Compliance Component document completed at these inspections includes many of the items delineated in 105 ILCS 5/3-14.5, it does not include a review of the methods of instruction and the textbooks used in the district.

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

B. The Regional Superintendent will present to the county boards in September and quarterly thereafter a report of all his acts including a list of all the schools visited and dates of visitation as required by 105 ILCS 5/3-5.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-1 – Continued

Plan – Continued

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

Completion Date: As soon as possible

Contact Person: Glen Braden, Regional Superintendent

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-2

- 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. The ROE maintains eleven different general ledger systems to account for the operations of the various programs it administers. Some of the ROE's programs are combined into the general ledger systems. The software package allows for the revenues and expenses of the ROE's programs to be accounted for separately, but combines all assets and liabilities.
- Plan: We will implement an accounting software program that will provide the necessary controls and reporting features required for proper fund accounting. This program will be installed at both the ROE's main office and at the Progressive Alternative Secondary School.
- Completion Date: July 1, 2007
- Contact Person: Glen Braden, Regional Superintendent

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-3

Condition: The Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) did not have adequate controls over fixed assets.

In our tests of fixed assets at the Progressive Alternative Secondary School (PASS) location, we noted that the fixed asset listings did not have complete information as to the function and activity; reference to the acquisition source document; acquisition date; acquisition cost; vendor; unit charged with custody; location; fund and account from which purchased; and method of acquisition.

A physical inventory was taken at the end of the fiscal year by PASS personnel. Each teacher and employee verified the inventory for their assigned rooms. Most of the items we selected for observation testing had property tags, but these property tags were not referenced to the fixed asset listing. The fixed asset listing contained only a description of the item and the location.

Plan: We currently have fixed asset listings for both the ROE main office and the PASS location. These listings will be reviewed and updated as appropriate with all available information for existing items. All new items will be added to the listings with all required information.

Completion Date: June 30, 2007

Contact Person: Glen Braden, Regional Superintendent

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-4

Condition: During our testing of cash accounts, we noted three bank accounts with balances totaling \$40,414 as of June 30, 2006 not recorded in the general ledger. Two of these accounts were time and savings accounts opened in prior years and one was a checking account opened in the current year. The accounts have been included in the cash balances reported in the financial statements through adjusting entries.

Plan: The ROE will add these bank accounts to the QuickBooks data.

Completion Date: Immediate

Contact Person: Glen Braden, Regional Superintendent

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

CORRECTIVE ACTION PLAN FOR
CURRENT YEAR AUDIT FINDINGS
For the Year Ended June 30, 2006

Corrective Action Plan

Finding No. 06-5

Condition: As of June 30, 2006, the ROE had five cash accounts with bank balances totaling \$234,444 at one financial institution. The Federal Deposit Insurance Company (FDIC) covers up to a maximum of \$100,000. The financial institution pledged collateral with a market value at June 30, 2006 of \$59,676. The ROE did not have depository insurance or collateral for \$74,768.

Plan: The ROE will work with the financial institution to ensure that all bank deposits in excess of FDIC insurance amounts are collateralized.

Completion Date: June 30, 2007

Contact Person: Glen Braden, Regional Superintendent

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2006

<u>Finding Number</u>	<u>Prior Finding</u>	<u>Status</u>
05-1	The ROE did not comply with statutory mandates to examine at least once a year the books, accounts, and vouchers of every school treasurer in his region. This was a universal finding for all ROE's for FY 2005.	Repeated as Part A of Finding 06-1.
05-2	The ROE did not have adequate controls over fixed assets.	Repeated as Finding 06-3.
05-3	The ROE had four bank accounts with balances totaling \$125,632 as of June 30, 2005 not recorded in the general ledger.	Partially Repeated as Finding 06-4.
05-4	The ROE did not have employment contracts or formally approved rates of pay for all employees at the PASS Alternative School.	Not Repeated.
05-5	The ROE's system of accounts did not correspond with the system of accounts promulgated by the Illinois State Board of Education.	Not Repeated.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

The Henderson, Mercer and Warren Counties Regional Office of Education #27 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended on June 30, 2006 with comparative information for the year ended June 30, 2005. Readers are encouraged to consider the information in conjunction with the Regional Office's financial statements that follow.

2006 Financial Highlights

- Within the Governmental Funds, the General Fund revenues increased by \$37,870 (10%) from \$380,584 in fiscal year 2005 to \$418,454 in fiscal year 2006. General Fund expenditures increased by \$70,998 (19%) from \$381,915 in fiscal year 2005 to \$452,913 in fiscal year 2006.
- Within the Governmental Funds, the Special Revenue Fund revenue increased by \$94,291 (8%) from \$1,124,242 in fiscal year 2005 to \$1,218,533 in fiscal year 2006. The Special Revenue Fund expenditures increased by \$151,663 (13%) from \$1,140,620 in fiscal year 2005 to \$1,292,283 in fiscal year 2006.
- The Enterprise Fund revenue increased by \$24,799 (35%) from \$70,568 in FY 2005 to \$95,367 in FY 2006. The Enterprise Fund expenditures increased by \$12,227 (26%) from \$47,609 in FY 2005 to \$59,836 in FY 2006.
- The Regional Office of Education # 27 has no long term debt.

Using This Report

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

- *Management's Discussion and Analysis* introduces the basic financial statements and provides an analytical overview of the Regional Office's financial activities.
- *The Government-wide financial statements* consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Regional Office as a whole and present an overall view of the Office's finances.
- *Fund financial statements* report the Regional Office's operations in more detail than the government-wide statements by providing information about the most significant funds.
- *Notes to the financial statements* provide additional information that is needed for a full understanding of the data provided in the basic financial statements.
- *Required supplementary information* further explains and supports the financial statements and supplementary information provides detailed information for each category of funds and about the non-major funds.

Reporting the Office as a Whole

It is important to note, that many grants are a cooperative effort of the Regional Office of Education #27 and the Rock Island County Regional Office of Education #49 and the Bureau/Henry/Stark Regional Office of Education # 28.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

The Statement of Net Assets and the Statement of Activities

The Government-wide statements report information about the Regional Office of Education #27 as a whole. The Statement of Net Assets includes all of the assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid, using accounting methods similar to those used by private sector companies.

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

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

The Government-wide financial statements present the Regional Office's activities as both governmental and business-type activities. Local, state and federal aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide detailed information about the Regional Office's funds. Funds are accounting devices that allow the tracking of specific sources of funding and spending on particular programs. Some funds are required by state law. The Regional Office established other funds to control and manage money for particular purposes.

The Office has three kinds of funds:

- 1) Governmental funds account for those funds through which most governmental functions of the Regional Office are financed. These focus on how cash and other financial assets that can be readily converted to cash flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer resources that can be spent in the near future to finance the Regional Office's programs. The Office's Governmental Funds include: the General Fund and the Special Revenue Fund.

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

- 2) Proprietary funds account for activities where the Regional Office charges customers for services. These funds are most similar to a business that operates for a profit. The Regional Office has one enterprise fund, the Staff Development Fund.

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

Reporting the Office as a Whole (continued)

- 3) Fiduciary funds are used to account for assets held by the Regional Office in a trust capacity or as an agent for individuals and private or governmental organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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

A summary reconciliation between the government-wide financial statements and the fund financial statements follows the fund financial statements.

Office-Wide Financial Analysis

As noted earlier, net assets may serve, when examined over time, as one indicator of the financial position of the Regional Office. The net assets at the end of fiscal year 2006 totaled \$242,946. At the end of fiscal year 2005, the net assets were \$315,624. The analysis that follows provides a summary of the Regional Office's net assets as of June 30, 2006 and June 30, 2005, for the governmental and business-type activities.

CONDENSED STATEMENT OF NET ASSETS

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 220,555	\$ 307,983	\$ 54,591	\$ 21,890	\$ 275,146	\$ 329,873
Total assets	220,555	307,983	54,591	21,890	275,146	329,873
Current liabilities	32,200	14,249	-	-	32,200	14,249
Total liabilities	32,200	14,249	-	-	32,200	14,249
Net assets:						
Unrestricted	159,591	267,246	54,591	21,890	214,182	289,136
Restricted for teacher professional development	28,764	26,488	-	-	28,764	26,488
Total net assets	\$ 188,355	\$ 293,734	\$ 54,591	\$ 21,890	\$ 242,946	\$ 315,624

The Regional Office's net assets decreased by \$72,678 from FY05. The decrease occurred primarily due to an increase in salaries, purchased services, supplies and other general expenses. In addition, net assets related to the Teacher Institute Fund are considered restricted for teacher professional development.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

Office-Wide Financial Analysis (Continued)

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues						
Charges for services	\$ -	\$ 36,479	\$ 95,367	\$ 67,738	\$ 95,367	\$ 104,217
Operating grants and contributions	912,252	1,087,713	-	-	912,252	1,087,713
General revenues						
Local sources	508,825	177,987	-	-	508,825	177,987
State sources	3,000	-	-	-	3,000	-
Investment earnings	2,876	2,901	-	-	2,876	2,901
On behalf payments	210,034	202,576	-	-	210,034	202,576
Total revenues	<u>\$ 1,636,987</u>	<u>\$ 1,507,656</u>	<u>\$ 95,367</u>	<u>\$ 67,738</u>	<u>\$ 1,732,354</u>	<u>\$ 1,575,394</u>
Expenses:						
Program expenses						
Salaries and benefits	\$ 906,608	\$ 782,679	\$ 31,500	\$ 5,361	\$ 938,108	\$ 788,040
Purchased services	311,008	276,478	22,671	34,347	333,679	310,825
Supplies and materials	127,400	160,618	5,665	7,901	133,065	168,519
Payments to other governments	121,231	93,650	-	-	121,231	93,650
Capital outlay	10,429	6,534	-	-	10,429	6,534
Other	79,945	-	-	-	79,945	-
Administrative expenses						
On-behalf payments - State	188,575	202,576	-	-	188,575	202,576
Total expenses	<u>\$ 1,745,196</u>	<u>\$ 1,522,535</u>	<u>\$ 59,836</u>	<u>\$ 47,609</u>	<u>\$ 1,805,032</u>	<u>\$ 1,570,144</u>
Change in net assets	\$ (108,209)	\$ (14,879)	\$ 35,531	\$ 20,129	\$ (72,678)	\$ 5,250
Net assets beginning of year	296,564	311,443	19,060	(1,069)	315,624	310,374
Net assets end of year	<u>\$ 188,355</u>	<u>\$ 296,564</u>	<u>\$ 54,591</u>	<u>\$ 19,060</u>	<u>\$ 242,946</u>	<u>\$ 315,624</u>

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

Governmental Activities

Revenues for governmental activities were \$1,636,987 and expenses were \$1,745,196 for the year ended June 30, 2006. Revenues for governmental activities were \$1,507,656 and expenses were \$1,522,535 for the year ended June 30, 2005. As discussed earlier, the revenue within the General Fund increased by \$37,870. The increases in other revenues and expenditures are due primarily to obtaining the Early Childhood Block Grant.

Financial analysis of the Henderson, Mercer and Warren Counties Regional Office of Education #27 Funds

As previously noted, the Henderson, Mercer and Warren Counties Regional Office of Education #27 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Agency's Governmental Funds reported combined fund balances of \$188,355 at June 30, 2006 compared to fiscal year 2005's ending fund balance of \$296,564. The majority of this decrease is due to the reduction in the Even Start Grant by \$10,000, the completion of the Teen Reach Program in 2006, no Reading First funds for 2006, and a reduction in the 21st Century money received from the Coop.

Budgetary Highlights

The Henderson, Mercer and Warren Counties Regional Office of Education #27 annually adopts budgets for several funds. The Regional Superintendent annually prepares an Office Operations Budget and submits it to the Henderson, Mercer and Warren Counties Boards for their approval. The Office Operations Budget covers a fiscal year that runs from December 1 to November 30. All grant budgets are prepared by the Henderson, Mercer and Warren Counties Regional Office of Education #27 and submitted to the granting agency for approval. Amendments must be submitted under guidelines established by the granting agency. Schedules showing the budget amounts compared to the Regional Office's actual financial activity are included in the supplementary information of this report.

Capital Assets

The Regional Office's capital assets include office equipment, computers, audio-visual equipment, and building improvements. The Regional Office maintains an inventory of capital assets which have been accumulated over time. The Regional Office adopted a capitalization and depreciation threshold of \$5,000 for GASB 34. As of June 30, 2006, there were no assets costing \$5,000 or more.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2006

Economic Factors and Next Year's Budget

At the time these financial statements were prepared and audited, the Henderson, Mercer and Warren Counties Regional Office of Education #27 was aware of several existing circumstances that could affect its financial health in the future:

- The interest rate on cash accounts made a small rebound, but it still remains low and will impact interest earned.
- The Certificate of Deposit had to be drawn on in 2006, as well as the funds in the Teachers Credit Union. This will reduce the amount of interest earned, but there still remains a substantial amount in savings for emergencies.
- A new Early Childhood Block Grant, Special Project, for \$625,000 will be received for FY07.
- The County Budget, after remaining the same for three years, will be increased by three percent to defray some salary increases.
- The High Roads, WIA Grant, will see a reduction of 15% for the 06-07 year.
- With the completion of the Even Start Program, some services were combined, which should reduce some expenses.
- The School Services monies, which are shared with the Rock Island and Bureau/Henry/Stark Counties ROE's, will be increased for fiscal year 2007. Our share will increase 30%.
- The 21st Century money from Bureau/Henry/Stark will increase due to the hiring of an attendance liaison for two of our districts.

Contacting the Regional Office's Financial Management

This financial report is designed to provide the Regional Office's citizens, taxpayers, clients, and other constituents with a general overview of its finances and to demonstrate the accountability for the money it receives. If the reader has questions concerning this report or needs additional financial information, please contact the Regional Superintendent of the Henderson, Mercer and Warren Counties Regional Office of Education #27 at 200 West Broadway, Monmouth, Illinois 61462.

BASIC FINANCIAL STATEMENTS

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27
STATEMENT OF NET ASSETS
June 30, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 166,529	\$ 54,591	\$ 221,120
Due from other funds	25,271	-	25,271
Due from other governments	28,755	-	28,755
Total Current Assets	220,555	54,591	275,146
TOTAL ASSETS	220,555	54,591	275,146
LIABILITIES			
Current Liabilities:			
Accounts payable	15,087	-	15,087
Due to other funds	214	-	214
Deferred revenue	16,899	-	16,899
TOTAL LIABILITIES	32,200	-	32,200
NET ASSETS			
Unrestricted (deficit)	159,591	54,591	214,182
Restricted for teacher professional development	28,764	-	28,764
TOTAL NET ASSETS	\$ 188,355	\$ 54,591	\$ 242,946

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2006

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expenses)/Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-Type Activities	Total
Primary government:						
Governmental activities:						
Instructional Services:						
Salaries and benefits	\$ 906,608	\$ -	\$ 577,569	\$ (329,039)	\$ -	\$ (329,039)
Purchased services	311,008	-	138,336	(172,672)	-	(172,672)
Supplies and materials	127,400	-	88,235	(39,165)	-	(39,165)
Payments to other governments	121,231	-	89,629	(31,602)	-	(31,602)
Capital outlay	10,429	-	8,931	(1,498)	-	(1,498)
Other	79,945	-	9,552	(70,393)	-	(70,393)
Administrative:						
On-behalf payments-State	188,575	-	-	(188,575)	-	(188,575)
Total governmental activities	<u>1,745,196</u>	<u>-</u>	<u>912,252</u>	<u>(832,944)</u>	<u>-</u>	<u>(832,944)</u>
Business-type activities:						
Staff Development	59,836	95,367	-	-	35,531	35,531
Total business-type activities	<u>59,836</u>	<u>95,367</u>	<u>-</u>	<u>-</u>	<u>35,531</u>	<u>35,531</u>
Total primary government	<u>\$ 1,805,032</u>	<u>\$ 95,367</u>	<u>\$ 912,252</u>	<u>\$ (832,944)</u>	<u>\$ 35,531</u>	<u>\$ (797,413)</u>
General revenues:						
Local sources				508,825	-	508,825
State sources				3,000	-	3,000
Investments earnings				2,876	-	2,876
On behalf payments				210,034	-	210,034
Total general revenues				<u>724,735</u>	<u>-</u>	<u>724,735</u>
and						
Change in net assets				(108,209)	35,531	(72,678)
Net assets - beginning				296,564	19,060	315,624
Net assets - ending				<u>\$ 188,355</u>	<u>\$ 54,591</u>	<u>\$ 242,946</u>

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 June 30, 2006

	General Fund	Education Fund	Institute	Education Administration	Other Non-Major Funds	Total Governmental Funds
ASSETS						
Cash	\$ 63,244	\$ 34,067	\$ 28,764	\$ 37,969	\$ 2,485	\$ 166,529
Due from other funds	-	25,271	-	-	-	25,271
Due from other governmental units and agencies	-	28,755	-	-	-	28,755
TOTAL ASSETS	\$ 63,244	\$ 88,093	\$ 28,764	\$ 37,969	\$ 2,485	\$ 220,555
LIABILITIES						
Accounts payable	\$ -	\$ 15,087	\$ -	\$ -	\$ -	\$ 15,087
Due to other funds	-	214	-	-	-	214
Deferred revenue	-	16,899	-	-	-	16,899
Total liabilities	-	32,200	-	-	-	32,200
FUND BALANCES						
Unreserved, reported in:						
General fund	63,244	-	-	-	-	63,244
Special revenue funds	-	55,893	28,764	37,969	2,485	125,111
Total fund balances	63,244	55,893	28,764	37,969	2,485	188,355
TOTAL LIABILITIES AND FUND BALANCES	\$ 63,244	\$ 88,093	\$ 28,764	\$ 37,969	\$ 2,485	\$ 220,555

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total Fund balances - governmental funds	\$ 188,355
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	<u> -</u>
Net assets of governmental activities	<u><u> \$ 188,355</u></u>

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2006

	General Fund	Education Fund	Institute	Education Administration	Other Non-Major Funds	Total Governmental Funds
Revenues:						
Local sources	\$ 227,025	\$ 258,386	\$ 16,746	\$ -	\$ 6,668	\$ 508,825
State sources	-	621,662	-	-	3,000	624,662
Federal sources	-	290,590	-	-	-	290,590
Interest	2,854	22	-	-	-	2,876
On-behalf payments from State	188,575	21,459	-	-	-	210,034
Total revenues	418,454	1,192,119	16,746	-	9,668	1,636,987
Expenditures:						
Salaries and benefits	92,065	812,807	32	-	1,704	906,608
Purchased services	68,957	219,106	13,957	-	8,988	311,008
Supplies and materials	24,954	100,175	481	-	1,790	127,400
Capital outlay	-	10,429	-	-	-	10,429
Payments to other governments	-	121,231	-	-	-	121,231
On-behalf payments to TRS and State	188,575	-	-	-	-	188,575
Other	78,362	1,583	-	-	-	79,945
Total expenditures	452,913	1,265,331	14,470	-	12,482	1,745,196
Excess (deficiency) of revenues over expenditures	(34,459)	(73,212)	2,276	-	(2,814)	(108,209)
Fund balances - beginning	97,703	129,105	26,488	37,969	5,299	296,564
Fund balances - ending	\$ 63,244	\$ 55,893	28,764	37,969	\$ 2,485	\$ 188,355

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 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, 2006

Net change in fund balances \$ (108,209)

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 expenditures per the fund financials	\$	-	
Capital outlay expenditures per the government wide statement		-	
Capital outlay expenditures that are capitalized			-
Depreciation expense			-

Changes in net assets of governmental activities \$ (108,209)

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 June 30, 2006

	<u>Enterprise Fund Staff Development</u>
ASSETS	
Current assets:	
Cash	\$ 54,591
	<u><u>54,591</u></u>
NET ASSETS	
Unrestricted	\$ 54,591
	<u><u>54,591</u></u>

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2006

		Enterprise Fund <u>Staff Development</u>
OPERATING REVENUES:		
Charges for services	\$	<u>95,367</u>
Total operating revenues		<u>95,367</u>
OPERATING EXPENSES:		
Salaries and benefits		31,500
Purchased services		22,671
Supplies and materials		<u>5,665</u>
Total operating expenses		<u>59,836</u>
Operating income (loss)		<u>35,531</u>
TOTAL NET ASSETS - BEGINNING OF YEAR		<u>19,060</u>
TOTAL NET ASSETS - END OF YEAR	\$	<u><u>54,591</u></u>

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

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Year Ended June 30, 2006

	Enterprise Fund <hr style="border: 0; border-top: 1px solid black;"/> Staff Development <hr style="border: 0; border-top: 1px solid black;"/>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from other funds for goods and services provided	\$ 95,367
Payments to suppliers and providers of goods and services	(28,336)
Payments to employees	(31,500)
	<hr style="border: 0; border-top: 1px solid black;"/>
Net cash provided by (used for) operating activities	35,531
	<hr style="border: 0; border-top: 1px solid black;"/>
Net increase (decrease) in cash and cash equivalents	35,531
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	19,060
	<hr style="border: 0; border-top: 1px solid black;"/>
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 54,591
	<hr style="border: 0; border-top: 3px double black;"/>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Operating income (loss)	\$ 35,531
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:	-
	<hr style="border: 0; border-top: 1px solid black;"/>
NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	\$ 35,531
	<hr style="border: 0; border-top: 3px double black;"/>

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash	<u>\$ 50,989</u>
LIABILITIES	
Due to other funds	\$ 25,057
Due to other governmental units	<u> 25,932</u>
TOTAL LIABILITIES	<u>\$ 50,989</u>

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) conform to accounting principles generally accepted in the United States of America for governmental entities. The following is a summary of the significant accounting policies.

FINANCIAL REPORTING ENTITY

The Regional Superintendent is responsible for supervision and control of school districts within Henderson, Mercer and Warren Counties. This includes all aspects of supervision, reports and financial accounting of districts which are considered by state law to be in the Service Region. In addition, 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 Henderson, Mercer and Warren Counties, examine school treasurer's books, accounts, and vouchers; examine evidence of indebtedness; file and keep the returns of elections required to be returned to the Regional Superintendent's office; and file and keep the reports and statements returned by school treasurers and trustees.

The Regional Superintendent is also charged with the responsibilities of conducting a special census, when required, providing notice of 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 Henderson, Mercer and Warren Counties 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 treasurer's 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 Henderson, Mercer and Warren Counties 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.

For the period ended June 30, 2006, Henderson, Mercer and Warren Counties Regional Office of Education #27 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 Henderson, Mercer and Warren Counties. Such activities are reported as a single special revenue fund (Education Fund).

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REPORTING ENTITY

The ROE's reporting entity includes all related organizations for which it exercises oversight responsibility.

The ROE has developed criteria to determine whether outside agencies with activities which benefit the citizens of the region, including joint agreements which serve pupils from numerous school districts, should be included within its financial reporting entity. The criteria include, but are not limited to, whether the ROE exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), scope of public service, and special financing relationships.

Certain joint agreements have been determined not to be 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 ROE does not control the assets, operations, or management of the joint agreements. However, Progressive Alternative Secondary School (PASS) was determined to be part of the reporting entity and, as such, is reflected as part of these financial statements. In addition, the ROE is not aware of any entity which would exercise such oversight as to result in the ROE being considered a component of the entity.

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government.

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 to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

The statements are separated by governmental and business-type activities. The only business-type activity for the ROE is the Staff Development Fund, which accounts for fees that are charged for the development of staff for educators in west central Illinois.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Fund Accounting

The accounts of the ROE are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts comprised of its assets, liabilities, fund balance, revenues, and expenditures. The ROE's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

Governmental Fund Types

Governmental Funds are those through which most governmental functions of the ROE are financed. The acquisition, use, and balances of the ROE's expendable financial resources and the related current liabilities are accounted for through Governmental Funds. The ROE's major Governmental Funds include the following:

General Fund – The General Fund is used to account for resources traditionally associated with government which are not required, legally or by sound financial management, to be accounted for in another fund. The General Fund is always considered a major fund.

Education Fund – The Education Fund includes proceeds from specific revenue sources that are legally restricted to expenditures for specified purposes. The following accounts are included in the Education Fund:

Teen Reach – Department of Human Services (DHS) – To account for monies received for, and payment of expenditures for, the Teen Reach program. This program consists of educational, recreational and vocational activities designed to improve youth's chances for success.

Title I – Reading First Part B SEA Funds – To account for funds received to provide assistance to school districts in establishing reading programs for students in kindergarten through third grade that are based on scientific reading research. Reading First also focuses on teacher development and ensuring that all teachers, including special education teachers, have the tools they need to effectively help their students learn to read.

Even Start – Statewide Family Literacy Program – To account for the grant monies received for, and payment of, expenditures incurred for the Even Start Grant.

Even Start - Local – To account for local grant monies received for, and payment of, expenditures incurred for the Even Start program.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Child and Adult Care Food Program – To account for the grant monies received for, and payment of, expenditures incurred for Child and Adult Care Food Program.

McDonough/Hancock ROE Homeless Grant – To account for grant monies received for, and payment of, expenditures incurred for the Homeless Grant from the McDonough/Hancock ROE.

Bureau/Henry/Stark ROE Century 21 Grant – To account for the grant monies received for, and payment of, expenditures incurred for the 21st Century Learning Centers Grant from the Bureau/Henry/Stark ROE.

KIDS Standards Aligned Classroom – To account for grant monies received for, and payment of, expenditures incurred for the KIDS Standards Aligned Classroom.

High Roads Youth Program – To account for the grant monies received for, and the payment of expenditures incurred for the High Roads Youth Program.

Illinois Violence Prevention Act (IVPA) Mini-Grant – To account for funds received from IVPA to provide community awareness, coordination and training to impede family violence.

Early Childhood Block Grant – To account for the grant monies received for, and payment of, expenditures incurred for the Early Childhood Block Grant.

Progressive Alternative Secondary School (P.A.S.S.) – To account for the administration of monies used for the following sources:

General State Aid – To account for the administration of monies to be received for, and payment of, expenditures for the Progressive Alternative Secondary School.

Adult Education and Family Literacy – State Basic – To account for grant monies received for, and payment of, expenditures incurred for students in high school, General Educational Development, and computer classes with high reading level.

Adult Education and Family Literacy – State Performance – To account for grant monies for formula-driven rewards for successful completion of the program.

Adult Education and Family Literacy – Public Assistance – To account for grant monies received from the Department of Human Services for expenditures incurred for educational services given for students on public assistance.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

Regional Safe Schools – To account for the administration of monies to be used for the Regional Safe Schools Program Fund by the Illinois State Board of Education.

Title V – Innovative Programs – To account for grant monies received and expenditures for Title V – Innovative Programs.

Title IV – Safe and Drug Free Schools Formula – To account for grant monies received and expenditures for the drug prevention program.

Federal Adult Education - Basic – To account for federal grant monies received for, and payment of, education and literacy for adults.

Title II – Teacher Quality – To account for grant monies received to assist school districts in educating school staff in the use of technology and telecommunications in instructional and administrative functions.

Health Literacy – To account for grant monies received for, and payment of, expenditures for the Health Literacy Program.

State Free Lunch and Breakfast – To account for grant monies received for, and payment of, expenditures for the State Free Lunch and Breakfast Program.

National School Lunch Program – To account for grant monies received for, and payment of, expenditures for the National School Lunch Program.

School Breakfast Program – To account for grant monies received for, and payment of, expenditures for the School Breakfast Program.

School Breakfast Incentive – To account for grant monies received for, and payment of, expenditures for the School Breakfast Incentive Program.

Institute – To account for fees collected for the registration and renewal of teaching certificates. These fees are used to defray administrative expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or for the purpose of defraying the expense of any general or special meeting of teachers or school personnel. All funds generated remain restricted until expended only on the aforementioned activities.

Education Administration – To account for the stewardship of the assets held in trust per agreement with the Boards of Education of the local school districts on the use of interest earnings earned from temporary investment of distributive funds.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

The ROE also reports the following non-major governmental funds:

Non-Major Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The ROE's non-major special revenue funds include the following:

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

Bus Driver Training – To account for the stewardship of the assets held in trust in connection with the Bus Driver Training Program.

American College Testing (ACT) Class – To account for the administration of classes to prepare students for the ACT.

Criminal Background Investigation – To account for the assessments received from the school districts to pay for the processing of background checks of substitute teachers and expenditures incurred providing this service to the school districts.

Supervisory Expense – To account for resources accumulated for, and payment of, expenditures incurred in providing supervisory services.

Proprietary Fund Types

Enterprise Fund – Used to account for resources from fees charged directly to those entities of individuals that use the services of the Henderson, Mercer and Warren Counties Regional Office of Education #27. This consists mainly of monies received for, and payment of, expenditures for workshops and other services for the school districts. The ROE's enterprise funds include the following:

Staff Development – To account for local revenues and disbursements related to the development of staff.

Fiduciary Fund Types

Agency Funds are used to account for assets held by the ROE in a trustee capacity or as an agent for individuals and private or governmental organizations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The ROE has the following Agency Funds:

Distributive Fund – To account for funds received and disbursed as a result of the Superintendent's responsibility to receive and distribute to treasurers of school districts and other agencies, monies due to them from general state aid, state categorical grants, and various other sources.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION – GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

ROE #27 Grant Program – A convenience clearing account for certain expenditures shared between Henderson, Mercer and Warren Counties Regional Office of Education #27 and other entities sharing the same office building.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Accounting records and reports made by ROE officials are maintained on the cash basis of accounting. Under this method, revenue is recorded when collected and expenditures are recorded when disbursements are made. The government-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus. They are reported using 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. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are 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. For this purpose, the ROE considers revenues to be available if they are collected within one year of the end of the current fiscal period.

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 ROE; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Expenditures are recognized under the modified accrual basis of accounting when the related fund liability is incurred.

The financial statements of all governmental funds 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 equity (net current assets) is considered a measure of “available spendable resources.” Governmental fund operating statements present increases (revenue 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.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF ACCOUNTING (Continued)

The proprietary fund of the ROE applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency's enterprise fund is charges to customers for services. Operating expenses for enterprise funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

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

BUDGETS

The ROE does not adopt a formal budget for all revenues and expenditures of the governmental funds and is not legally required to do so. The Regional Office of Education Funds are controlled by the Regional Superintendent of Education and the State of Illinois. Certain programs administered by the ROE are subject to budget approval by the State of Illinois. The actual to budget comparisons are prepared on the modified accrual basis of accounting. The following accounts/funds prepare budgets:

Educational Grants:

- Even Start – Statewide Family Literacy Program
- McDonough/Hancock ROE Homeless Grant
- Early Childhood – Block Grant
- Adult Education and Family Literacy – State Basic
- Adult Education and Family Literacy – State Performance
- Adult Education and Family Literacy – Public Assistance
- Regional Safe Schools
- Title V – Innovative Programs
- Title IV – Safe and Drug Free Schools Formula
- Federal Adult Education - Basic
- Title II – Teacher Quality

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTEREST REVENUE

Illinois State Board of Education (ISBE) funds received by the ROE for the Distributive Fund accrue interest for the period of time between the receipt of the funds and clearance of checks to the recipient. In accordance with an agreement dated May 24, 1988 with the school district boards served, interest earned on Distributive Fund deposits is transferred to the General Fund to offset wire service and other bank charges incurred by the Distributive Fund.

Distributive Fund interest earned and related charges are recognized as revenues and expenditures in the general fund.

TEACHER CERTIFICATION

Teacher certification revenues are recognized over a five year period when applicable.

REVENUES – EXCHANGE AND NON-EXCHANGE TRANSACTIONS

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

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

CAPITAL ASSETS

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide Statement of Net Assets. Purchases of equipment are recorded as capital outlay expenditures of the various funds. All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. The ROE capitalizes items costing \$5,000 or more. As of June 30, 2006, there were no items costing \$5,000 or more.

DEFERRED REVENUES

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS AND CASH ACCOUNTS

State regulations require that the Henderson, Mercer and Warren Counties Regional Office of Education #27 deposit funds under its control into accounts insured by the federal government, secured by substantial collateral or into pooled investment trusts. All funds not needed for immediate disbursements are maintained in interest bearing accounts. Statutes authorize the ROE to make deposits or invest in obligation of states and their political subdivisions, savings accounts, credit union shares, repurchase agreements, commercial paper rated within the three highest classifications by at least two standard rating services, and the Illinois Public Treasurer's Investment Pool.

REVENUES FROM FEDERAL AND STATE GRANTS

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

DUE FROM OTHER GOVERNMENTAL UNITS AND AGENCIES

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

ACCUMULATED UNPAID VACATION AND SICK PAY

Sick pay must be accumulated but does not vest with the employee. Vacation time must be used during the calendar year earned or it is forfeited. Any accruals as of June 30 are considered immaterial.

INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds and are classified as "due to and from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

EQUITY CLASSIFICATIONS

Government-wide Statements

Equity is classified as net assets. Net assets represent the difference between assets and liabilities and is displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. 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.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

NEW ACCOUNTING STANDARDS

There were four new accounting standards implemented during the year ended June 30, 2006: Governmental Accounting Standards Board Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, Governmental Accounting Standards Board Statement No. 44, Economic Condition Reporting: The Statistical Section, Governmental Accounting Standards Board Statement No. 46, Net Assets Restricted by Enabling Legislation, and Governmental Accounting Standards Board No. 47, Accounting for Termination Benefits. These new standards were implemented during the year ended June 30, 2006, but did not have a significant impact on the financial statements.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior years’ financial statements to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or fund balances.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

2. INTERGOVERNMENTAL AGREEMENT

Henderson, Mercer and Warren Counties Regional Office of Education #27 entered into an Intergovernmental Agreement with Rock Island Regional Office of Education #49 executed pursuant to the provisions of the Intergovernmental Cooperation Clause of the Illinois Constitution as well as the provisions of the Intergovernmental Cooperation Act of 1973 and the Illinois Admin. Code 525.110.

3. CASH

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

At June 30, 2006, the carrying amount of the ROE's various bank deposits totaled \$272,109 and the bank balances totaled \$369,162. Included in the bank balance is \$64,716 deposited in the Illinois Funds. The Illinois Funds portfolio includes: certificates of deposit issued by Illinois financial institutions, repurchase agreements backed by direct treasury obligations from primary government securities dealers, direct treasury obligations of the U.S. Government, and money market funds backed by full faith and credit obligations of the U.S. Government. The ROE owns no identifiable investment securities in the Illinois Funds; therefore, credit risk cannot be assessed for the Illinois Funds.

Custodial credit risk is the risk that in the event of a bank failure, the ROE's deposits may not be returned to it. The ROE does not have a deposit policy for custodial credit risk. As of June 30, 2006, \$134,444 of the ROE's bank balance of \$369,162 was exposed to custodial credit risk as follows:

	<u>Bank Balance</u>
Uninsured and uncollateralized	\$ 74,768
Uninsured and collateral held by pledging bank's trust department not in the ROE's name	<u>59,676</u>
Total	<u>\$ 134,444</u>

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

4. RECEIVABLES/PAYABLES

Receivables for the Henderson, Mercer and Warren Counties ROE #27 at June 30, 2006, are as follows:

	Due from Other Governments	Other	Total
Governmental activities:			
Education	\$ 28,755	\$ -	\$ 28,755
Total governmental activities	\$ 28,755	\$ -	\$ 28,755

Payables for the Henderson, Mercer and Warren Counties ROE #27 at June 30, 2006, are as follows:

	Vendors	Other	Total
Governmental activities:			
Education	\$ 15,087	\$ -	\$ 15,087
Total governmental activities	\$ 15,087	\$ -	\$ 15,087

5. DUE TO/FROM OTHER FUNDS

The Henderson, Mercer and Warren Counties ROE #27 had the following due to/from other fund balances for the year ended June 30, 2006:

DUE FROM OTHER FUNDS:			
	Education Fund	Agency Fund	Total
DUE TO OTHER FUNDS:			
Education Fund	\$ 214	\$ 25,057	\$ 25,271
Total	\$ 214	\$ 25,057	\$ 25,271

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

6. DUE TO/FROM OTHER GOVERNMENTS

The Henderson, Mercer and Warren Counties Regional Office of Education #27's governmental and fiduciary activities have amounts due to and due from various other governmental units which consist of the following:

Due From Other Governments:

Illinois State Board of Education	<u>\$28,755</u>
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\$28,755

Due To Other Governments:

Local School Districts	<u>\$25,932</u>
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7. RETIREMENT PLANS

All certified personnel participate in the Teachers' Retirement System of the State of Illinois (TRS). All other employees who meet or exceed prescribed annual hourly standards are enrolled in the Illinois Municipal Retirement Fund (IMRF).

TRS Plan Description

The ROE (employer) participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago.

The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate for the year ended June 30, 2006 was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer.

In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The employer THIS Fund contribution was 0.6 percent during the year ended June 30, 2006, and the member THIS Fund health insurance contribution was 0.8 percent.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

RETIREMENT PLANS (continued)

TRS Plan Description (Continued)

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

- On-behalf Contributions. The State of Illinois makes employer pension contributions on behalf of the ROE. For the year ended June 30, 2006, State of Illinois contributions were based on 7.06 percent of creditable earnings, and the ROE recognized revenue and expenditures of \$21,459 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005, and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent (\$23,713) and 13.98 percent (\$17,956), respectively.

The ROE 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, 2006 were \$1,763. Contributions for the years ended June 30, 2005, and June 30, 2004, were \$1,170 and \$1,157, respectively.
- Federal and Trust Fund Contributions. When TRS members are paid from federal and trust funds administered by the ROE, there is a statutory requirement for the ROE to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the state contribution rate to TRS.

For the 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, 2006, salaries totaling \$12,497 were paid from federal and trust funds that required employer contributions of \$882. For the years ended June 30, 2005 and June 30, 2004, required ROE contributions were \$30 and \$372, respectively.

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

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

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

RETIREMENT PLANS (Continued)

TRS Plan Description (Continued)

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

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

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

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

Illinois Municipal Retirement Fund

The ROE'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 Henderson, Mercer and Warren Counties Regional Office of Education #27 is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 12.62 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005, was 5 years.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

RETIREMENT PLANS (continued)

Illinois Municipal Retirement Fund (Continued)

For December 31, 2005, the Henderson, Mercer and Warren Counties Regional Office of Education #27's annual pension cost of \$41,605 was equal to the ROE's required and actual contributions. The required contribution was determined as part of the December 31, 2003, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00 percent a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4 to 11.6 percent per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3.00 percent annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15 percent corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

Trend Information

<u>Actuarial Valuation Date</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/2005	\$ 41,605	100 %	\$0
12/31/2004	21,995	100	0
12/31/2003	19,737	100	0
12/31/2002	9,701	100	0
12/31/2001	11,448	100	0
12/31/2000	10,236	100	0
12/31/1999	8,330	100	0
12/31/1998	6,612	100	0
12/31/1997	3,183	100	0
12/31/1996	540	100	0

8. OTHER DISCLOSURES

Accounting principles generally accepted in the United States of America require disclosure of certain information concerning individual funds (which are presented only in combination on the financial statements). Funds having deficit fund balances and funds which overextended appropriations during the year are required to be disclosed.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

- A. The following funds/accounts had a deficit fund balance at June 30, 2006.

<u>Fund/Account</u>	<u>Amount</u>
Title I – Reading First Part B SEA Funds	\$ 3,153
Child and Adult Care Food Program	3,849
High Roads Youth Program	9,138
Adult Education and Family Literacy – State Basic	5
Adult Education and Family Literacy – State Performance	9
General Education Development	6,028
American College Test (ACT) Classes	389

- B. The following funds had an excess of actual expenditures over budget for the year ended June 30, 2006.

<u>Fund</u>	<u>Budget Amount</u>	<u>Expenditures</u>	<u>Unfavorable Variance</u>
Adult Education & Family Literacy - State Performance	\$ 28,059	\$ 28,201	\$ 142
Title II - Teacher Quality	420	492	72

9. INTEREST ON DISTRIBUTIVE FUND

Interest earned on distributive fund receipts is remitted to all affected school boards and other entities that have activity in the distributive fund. The interest monies are allocated based upon the total flow-through activity for each entity and are distributed based on those percentages once per year.

10. OPERATING LEASES

Progressive Alternative Secondary School (PASS) leases their office and classroom space at a monthly rent of \$2,260. The lease is renewable on a year to year basis.

The ROE's main office leases its office space at a yearly rent of \$4,000. The lease is renewable on a year to year basis.

During the year ended June 30, 2006, rentals under lease obligations were \$31,120.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO FINANCIAL STATEMENTS
June 30, 2006

11. ON-BEHALF PAYMENTS AND RELATED PARTY TRANSACTIONS

The State of Illinois makes contributions directly to TRS on behalf of the ROE's TRS-covered employees. The salaries, fringe benefits, and TRS contributions of the Regional Superintendent and the Assistant Superintendents are paid by the State of Illinois. The following salary and benefit data for the Regional Superintendent and Assistant Regional Superintendents was calculated based on data provided by the Illinois State Board of Education.

TRS pension contributions	\$21,459
Regional Superintendent – salary	79,848
Regional Superintendent – benefits (includes State paid insurance)	17,763
Assistant Regional Superintendent – salary	71,864
Assistant Regional Superintendent – benefits (includes State paid insurance)	<u>19,100</u>
Total	<u>\$210,034</u>

REQUIRED SUPPLEMENTARY INFORMATION
(Other than Management Discussion and Analysis)

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27
ILLINOIS MUNICIPAL RETIREMENT FUND
SCHEDULE OF FUNDING PROGRESS
For the Year Ended June 30, 2006

(Unaudited - See Accompanying Independent Auditor's Report)

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)
12/31/2005	\$ 453,317	\$ 520,801	\$ 67,484	87.04%	\$ 329,675	20.47%
12/31/2004	373,512	418,360	44,848	89.28%	236,506	18.96%
12/31/2003	335,060	378,646	43,586	88.49%	263,865	16.52%
12/31/2002	313,751	317,224	3,473	98.91%	241,324	1.44%
12/31/2001	284,306	264,492	(19,814)	107.49%	170,607	0.00%
12/31/2000	242,009	210,403	(31,606)	115.02%	123,624	0.00%
12/31/1999	196,844	180,437	(16,407)	109.09%	121,256	0.00%
12/31/1998	150,629	149,510	(1,119)	100.75%	123,584	0.00%
12/31/1997	118,046	113,572	(4,474)	103.94%	122,209	0.00%
12/31/1996	95,071	88,685	(6,386)	107.20%	61,317	0.00%

On a market value basis, the actuarial value of assets as of December 31, 2005 is \$458,312. On a market basis, the funded ratio would be 88.00%.

Digest of Changes

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

The principal changes were:

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

SUPPLEMENTAL INFORMATION

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 June 30, 2006

	Teen Reach Department of Human Services	Title I Reading First Part B SEA Funds	Even Start - Statewide Family Literacy Program	Even Start Local	Child and Adult Care Food Program	McDonough/ Hancock ROE Homeless Grant	Bureau/ Henry/ Stark ROE Century 21 Grant
ASSETS							
ASSETS							
Cash	\$ 4,665	\$ (3,153)	\$ 17,045	\$ 19,622	\$ (3,849)	\$ 40	\$ 8,483
Due from other funds	-	-	-	-	-	-	-
Due from other governmental units and agencies	-	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 4,665</u>	<u>\$ (3,153)</u>	<u>\$ 17,045</u>	<u>\$ 19,622</u>	<u>\$ (3,849)</u>	<u>\$ 40</u>	<u>\$ 8,483</u>
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ -	\$ -	4,286	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	-	-	12,692	-	-	40	-
Total Liabilities	-	-	16,978	-	-	40	-
FUND BALANCE							
Unreserved	4,665	(3,153)	67	19,622	(3,849)	-	8,483
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 4,665</u>	<u>\$ (3,153)</u>	<u>\$ 17,045</u>	<u>\$ 19,622</u>	<u>\$ (3,849)</u>	<u>\$ 40</u>	<u>\$ 8,483</u>

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND
 June 30, 2006

	KIDS Standards Aligned Classroom	High Roads Youth Program	Illinois Violence Prevention Act Mini-Grant	Early Childhood - Block Grant	Progressive Alternative Secondary School (P.A.S.S.)	Total
ASSETS						
ASSETS						
Cash	\$ 3,750	\$ (9,138)	\$ 4,621	\$ (40,308)	\$ 32,289	\$ 34,067
Due from other funds	-	-	-	25,000	271	25,271
Due from other governmental units and agencies	-	-	-	26,562	2,193	28,755
TOTAL ASSETS	\$ 3,750	\$ (9,138)	\$ 4,621	\$ 11,254	\$ 34,753	\$ 88,093
LIABILITIES AND FUND BALANCE						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ 10,711	\$ 90	\$ 15,087
Due to other funds	-	-	-	-	214	214
Deferred revenue	650	-	-	543	2,974	16,899
Total Liabilities	650	-	-	11,254	3,278	32,200
FUND BALANCE						
Unreserved	3,100	(9,138)	4,621	-	31,475	55,893
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	\$ 3,750	\$ (9,138)	\$ 4,621	\$ 11,254	\$ 34,753	\$ 88,093

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 For the Year Ended June 30, 2006

	Teen Reach Department of Human Services	Title I Reading First Part B SEA Funds	Even Start - Statewide Family Literacy Program	Even Start Local	Child and Adult Care Food Program	McDonough/ Hancock ROE Homeless Grant	Bureau/ Henry/ Stark ROE Century 21 Grant
REVENUES							
Local sources	\$ 3,062	\$ 532	\$ -	\$ 35,485	\$ -	\$ -	\$ 15,656
State sources	-	-	-	-	-	-	-
Federal sources	-	203	172,308	-	911	9,460	-
Interest	22	-	-	-	-	-	-
On behalf payments from State	-	-	-	-	-	-	-
Total revenues	3,084	735	172,308	35,485	911	9,460	15,656
EXPENDITURES							
Salaries and benefits	-	-	119,163	5,306	-	6,773	-
Purchased services	1,975	690	43,134	2,437	3,062	2,111	15,000
Supplies and materials	-	261	9,583	1,966	-	576	-
Capital outlay	-	-	428	-	-	-	-
Payments to other governments	-	1,665	-	6,857	-	-	-
Other	-	-	-	-	-	-	-
Total expenditures	1,975	2,616	172,308	16,566	3,062	9,460	15,000
Excess (deficiency) of revenues over expenditures	1,109	(1,881)	-	18,919	(2,151)	-	656
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	3,556	(1,272)	67	703	(1,698)	-	7,827
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 4,665	\$ (3,153)	\$ 67	\$ 19,622	\$ (3,849)	\$ -	\$ 8,483

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 For the Year Ended June 30, 2006

	KIDS Standards Aligned Classroom	High Roads Youth Program	Illinois Violence Prevention Act Mini-Grant	Early Childhood - Block Grant	Progressive Alternative Secondary School (P.A.S.S.)	Total
REVENUES						
Local sources	\$ -	\$ 89,457	\$ -	\$ -	\$ 114,194	\$ 258,386
State sources	-	-	-	289,457	332,205	621,662
Federal sources	51,029	-	-	-	56,679	290,590
Interest	-	-	-	-	-	22
On behalf payments from State	-	-	-	-	21,459	21,459
Total revenues	51,029	89,457	-	289,457	524,537	1,192,119
EXPENDITURES						
Salaries and benefits	11,546	69,599	-	112,639	487,781	812,807
Purchased services	11,776	23,973	-	39,475	75,473	219,106
Supplies and materials	707	4,732	-	67,400	14,950	100,175
Capital outlay	-	-	-	7,443	2,558	10,429
Payments to other governments	27,000	1,750	-	62,500	21,459	121,231
Other	-	-	-	-	1,583	1,583
Total expenditures	51,029	100,054	-	289,457	603,804	1,265,331
Excess (deficiency) of revenues over expenditures	-	(10,597)	-	-	(79,267)	(73,212)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	3,100	1,459	4,621	-	110,742	129,105
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 3,100	\$ (9,138)	\$ 4,621	\$ -	\$ 31,475	\$ 55,893

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 EVEN START - STATEWIDE FAMILY LITERACY PROGRAM
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 195,000	\$ 185,000	\$ 172,308	\$ (12,692)
Total revenues	<u>195,000</u>	<u>185,000</u>	<u>172,308</u>	<u>(12,692)</u>
 EXPENDITURES				
Salaries and benefits	75,446	128,236	119,163	9,073
Purchased services	113,542	46,092	43,134	2,958
Supplies and materials	6,012	10,672	9,583	1,089
Capital outlay	<u>-</u>	<u>-</u>	<u>428</u>	<u>(428)</u>
Total expenditures	<u>195,000</u>	<u>185,000</u>	<u>172,308</u>	<u>12,692</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 FUND BALANCE AT BEGINNING OF YEAR				
			<u>67</u>	
 FUND BALANCE AT END OF YEAR				
			<u>\$ 67</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 MCDONOUGH/HANCOCK ROE HOMELESS GRANT
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 9,500	\$ 9,500	\$ 9,460	\$ (40)
Total revenues	<u>9,500</u>	<u>9,500</u>	<u>9,460</u>	<u>(40)</u>
 EXPENDITURES				
Salaries and benefits	6,774	6,774	6,773	1
Purchased services	2,440	2,440	2,111	329
Supplies and materials	<u>286</u>	<u>286</u>	<u>576</u>	<u>(290)</u>
Total expenditures	<u>9,500</u>	<u>9,500</u>	<u>9,460</u>	<u>40</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 FUND BALANCE AT BEGINNING OF YEAR				
			<u>-</u>	
 FUND BALANCE AT END OF YEAR				
			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 EDUCATION FUND ACCOUNTS
 EARLY CHILDHOOD - BLOCK GRANT
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State sources	\$ 275,000	\$ 290,000	\$ 289,457	\$ (543)
Total revenues	<u>275,000</u>	<u>290,000</u>	<u>289,457</u>	<u>(543)</u>
 EXPENDITURES				
Salaries and benefits	170,560	112,930	112,639	291
Purchased services	57,955	102,849	39,475	63,374
Supplies and materials	39,485	65,221	67,400	(2,179)
Capital outlay	7,000	9,000	7,443	1,557
Payments to other governments	<u>-</u>	<u>-</u>	<u>62,500</u>	<u>(62,500)</u>
Total expenditures	<u>275,000</u>	<u>290,000</u>	<u>289,457</u>	<u>543</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 FUND BALANCE AT BEGINNING OF YEAR				
			<u>-</u>	
 FUND BALANCE AT END OF YEAR				
			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF ACCOUNTS
 P.A.S.S.
 June 30, 2006

ASSETS	Adult Education and Family Literacy - State Basic		Adult Education and Family Literacy - State Performance		Adult Education and Family Literacy - Public Assistance		Regional Safe Schools		Title V - Innovative Programs		Title IV - Safe and Drug Free Schools Formula		Federal Adult Education - Basic	
	General State Aid													
Cash	\$ 29,801	\$ 26	\$ (151)	\$ 18	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Due from other funds	-	-	142	-	-	-	-	-	-	-	-	-	-	-
Due from other governmental units and agencies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 29,801	\$ 26	\$ (9)	\$ 18	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LIABILITIES AND FUND BALANCE

LIABILITIES	Accounts payable	Due to other funds	Deferred revenue	Total Liabilities
	\$ 90	\$ -	\$ -	\$ -
	214	-	-	-
	-	31	-	4
	304	31	-	4
FUND BALANCE				
Unreserved	29,497	(5)	(9)	18
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	\$ 29,801	\$ 26	\$ (9)	\$ 18

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF ACCOUNTS
 P.A.S.S.
 June 30, 2006

ASSETS	Title II Teacher Quality	Health Literacy	State Free Lunch and Breakfast	National School Lunch Program	School Breakfast Program	School Breakfast Incentive	Total
Cash	\$ (72)	\$ 300	\$ 87	\$ 2,029	\$ 280	\$ (33)	\$ 32,289
Due from other funds	72	-	57	-	-	-	271
Due from other governmental units and agencies	-	-	13	1,790	342	48	2,193
TOTAL ASSETS	\$ -	\$ 300	\$ 157	\$ 3,819	\$ 622	\$ 15	\$ 34,753

LIABILITIES AND FUND BALANCE

LIABILITIES						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 90
Due to other funds	-	-	-	-	-	214
Deferred revenue	-	-	130	2,321	473	15
Total Liabilities	-	-	130	2,321	473	15

FUND BALANCE

Unreserved	-	300	27	1,498	149	-	31,475
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TOTAL LIABILITIES AND FUND
BALANCE (DEFICIT)

\$ -	\$ 300	\$ 157	\$ 3,819	\$ 622	\$ 15	\$ 34,753
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HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 P.A.S.S. ACCOUNTS
 For the Year Ended June 30, 2006

	General State Aid	Adult Education and Family Literacy - State Basic	Adult Education and Family Literacy - State Performance	Adult Education and Family Literacy - Public Assistance	Regional Safe Schools	Title V - Innovative Programs	Title IV - Safe and Drug Free Schools Formula	Federal Adult Education - Basic
REVENUES								
Local sources	\$ 113,694	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	152,041	47,675	28,201	29,441	74,510	-	-	-
Federal sources	-	-	-	-	-	171	171	49,775
On-behalf payments from State	21,459	-	-	-	-	-	-	-
Total revenues	287,194	47,675	28,201	29,441	74,510	171	171	49,775
EXPENDITURES								
Salaries and benefits	273,863	44,412	28,201	26,310	67,952	171	171	46,209
Purchased services	58,755	3,263	-	3,131	6,558	-	-	3,566
Supplies and materials	8,543	-	-	-	-	-	-	-
Capital outlay	2,558	-	-	-	-	-	-	-
On-behalf payment to TRS and State	21,459	-	-	-	-	-	-	-
Other	1,583	-	-	-	-	-	-	-
Total expenditures	366,761	47,675	28,201	29,441	74,510	171	171	49,775
Excess (deficiency) of revenues over expenditures	(79,567)	-	-	-	-	-	-	-
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	109,064	(5)	(9)	18	-	-	-	-
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ 29,497	\$ (5)	\$ (9)	\$ 18	\$ -	\$ -	\$ -	\$ -

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 P.A.S.S. ACCOUNTS
 For the Year Ended June 30, 2006

	Title II Teacher Quality	Health Literacy	State Free Lunch and Breakfast	National School Lunch Program	School Breakfast Program	School Breakfast Incentive	Total
REVENUES							
Local sources	\$ -	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 114,194
State sources	-	-	304	-	-	33	332,205
Federal sources	492	-	-	5,043	1,027	-	56,679
On-behalf payments from State	-	-	-	-	-	-	21,459
Total revenues	492	500	304	5,043	1,027	33	524,537
EXPENDITURES							
Salaries and benefits	492	-	-	-	-	-	487,781
Purchased services	-	200	-	-	-	-	75,473
Supplies and materials	-	-	304	5,043	1,027	33	14,950
Capital outlay	-	-	-	-	-	-	2,558
On-behalf payment to TRS and State	-	-	-	-	-	-	21,459
Other	-	-	-	-	-	-	1,583
Total expenditures	492	200	304	5,043	1,027	33	603,804
Excess (deficiency) of revenues over expenditures	-	300	-	-	-	-	(79,267)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	-	-	27	1,498	149	-	110,742
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ -	\$ 300	\$ 27	\$ 1,498	\$ 149	\$ -	\$ 31,475

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 ADULT EDUCATION AND FAMILY LITERACY - STATE BASIC
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
State sources	\$ 47,706	\$ 47,706	\$ 47,675	\$ (31)
Total revenues	<u>47,706</u>	<u>47,706</u>	<u>47,675</u>	<u>(31)</u>
EXPENDITURES				
Salaries and benefits	44,706	44,443	44,412	31
Purchased services	<u>3,000</u>	<u>3,263</u>	<u>3,263</u>	<u>-</u>
Total expenditures	<u>47,706</u>	<u>47,706</u>	<u>47,675</u>	<u>31</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>(5)</u>	
FUND BALANCE AT END OF YEAR			<u>\$ (5)</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 ADULT EDUCATION AND FAMILY LITERACY - STATE PERFORMANCE
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State sources	\$ 28,059	\$ 28,059	\$ 28,201	\$ 142
Total revenues	<u>28,059</u>	<u>28,059</u>	<u>28,201</u>	<u>142</u>
 EXPENDITURES				
Salaries and benefits	<u>28,059</u>	<u>28,059</u>	<u>28,201</u>	<u>(142)</u>
Total expenditures	<u>28,059</u>	<u>28,059</u>	<u>28,201</u>	<u>(142)</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 FUND BALANCE AT BEGINNING OF YEAR				
			<u>(9)</u>	
 FUND BALANCE AT END OF YEAR				
			<u>\$ (9)</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 ADULT EDUCATION AND FAMILY LITERACY - PUBLIC ASSISTANCE
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State sources	\$ 29,441	\$ 29,441	\$ 29,441	\$ -
Total revenues	<u>29,441</u>	<u>29,441</u>	<u>29,441</u>	<u>-</u>
EXPENDITURES				
Salaries and benefits	26,424	26,311	26,310	1
Purchased services	<u>3,017</u>	<u>3,130</u>	<u>3,131</u>	<u>(1)</u>
Total expenditures	<u>29,441</u>	<u>29,441</u>	<u>29,441</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>18</u>	
FUND BALANCE AT END OF YEAR			<u>\$ 18</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 REGIONAL SAFE SCHOOLS
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State sources	\$ 72,935	\$ 74,510	\$ 74,510	\$ -
Total revenues	<u>72,935</u>	<u>74,510</u>	<u>74,510</u>	<u>-</u>
EXPENDITURES				
Salaries and benefits	66,692	68,010	67,952	58
Purchased services	<u>6,243</u>	<u>6,500</u>	<u>6,558</u>	<u>(58)</u>
Total expenditures	<u>72,935</u>	<u>74,510</u>	<u>74,510</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>-</u>	
FUND BALANCE AT END OF YEAR			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 TITLE V - INNOVATIVE PROGRAMS
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 175	\$ 175	\$ 171	\$ (4)
Total revenues	<u>175</u>	<u>175</u>	<u>171</u>	<u>(4)</u>
 EXPENDITURES				
Salaries and benefits	<u>175</u>	<u>175</u>	<u>171</u>	<u>4</u>
Total expenditures	<u>175</u>	<u>175</u>	<u>171</u>	<u>4</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
 FUND BALANCE AT BEGINNING OF YEAR			<u>-</u>	
 FUND BALANCE AT END OF YEAR			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 TITLE IV - SAFE AND DRUG FREE SCHOOLS FORMULA
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 171	\$ 171	\$ 171	\$ -
Total revenues	<u>171</u>	<u>171</u>	<u>171</u>	<u>-</u>
EXPENDITURES				
Salaries and benefits	<u>171</u>	<u>171</u>	<u>171</u>	<u>-</u>
Total expenditures	<u>171</u>	<u>171</u>	<u>171</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>-</u>	
FUND BALANCE AT END OF YEAR			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 FEDERAL ADULT EDUCATION - BASIC
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 49,775	\$ 49,775	\$ 49,775	\$ -
Total revenues	<u>49,775</u>	<u>49,775</u>	<u>49,775</u>	<u>-</u>
EXPENDITURES				
Salaries and benefits	42,907	46,209	46,209	-
Purchased services	<u>6,868</u>	<u>3,566</u>	<u>3,566</u>	<u>-</u>
Total expenditures	<u>49,775</u>	<u>49,775</u>	<u>49,775</u>	<u>-</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>-</u>	
FUND BALANCE AT END OF YEAR			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 BUDGETARY COMPARISON SCHEDULE
 P.A.S.S. ACCOUNTS
 TITLE II - TEACHER QUALITY
 For the Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Federal sources	\$ 420	\$ 420	\$ 492	\$ 72
Total revenues	<u>420</u>	<u>420</u>	<u>492</u>	<u>72</u>
EXPENDITURES				
Salaries and benefits	<u>420</u>	<u>420</u>	<u>492</u>	<u>(72)</u>
Total expenditures	<u>420</u>	<u>420</u>	<u>492</u>	<u>(72)</u>
Excess of revenue over expenditures	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>-</u>	
FUND BALANCE AT END OF YEAR			<u>\$ -</u>	

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING BALANCE SHEET
 NON MAJOR SPECIAL REVENUE FUNDS
 June 30, 2006

	General Education Development	Bus Driver Training	American College Test (ACT) Class	Criminal Background Investigation	Supervisory Expense	Total
ASSETS						
Cash	\$ (6,028)	\$ 7,291	\$ (389)	\$ 1,368	\$ 243	\$ 2,485
FUND BALANCE (DEFICIT)						
Unreserved	\$ (6,028)	\$ 7,291	\$ (389)	\$ 1,368	\$ 243	\$ 2,485

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NON MAJOR SPECIAL REVENUE FUNDS
 For the Year Ended June 30, 2006

	General Education Development	Bus Driver Training	American College Test (ACT) Class	Criminal Background Investigation	Supervisory Expense	Total
REVENUES						
Local sources	\$ 1,874	\$ 1,156	\$ 2,020	\$ 1,618	\$ -	\$ 6,668
State sources	-	-	-	-	3,000	3,000
Total revenues	1,874	1,156	2,020	1,618	3,000	9,668
EXPENDITURES						
Salaries and benefits	1,704	-	-	-	-	1,704
Purchased services	1,055	953	900	3,080	3,000	8,988
Supplies and materials	146	57	1,587	-	-	1,790
Total expenditures	2,905	1,010	2,487	3,080	3,000	12,482
Excess (deficiency) of revenues over expenditures	(1,031)	146	(467)	(1,462)	-	(2,814)
FUND BALANCE (DEFICIT) AT BEGINNING OF YEAR	(4,997)	7,145	78	2,830	243	5,299
FUND BALANCE (DEFICIT) AT END OF YEAR	\$ (6,028)	\$ 7,291	\$ (389)	\$ 1,368	\$ 243	\$ 2,485

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 AGENCY FUNDS
 June 30, 2006

	ASSETS	Distributive Fund	ROE #27 Grant Program	Total
ASSETS				
Cash		\$ 36,597	\$ 14,392	\$ 50,989
	LIABILITIES			
LIABILITIES				
Due to other funds		\$ 25,057	\$ -	\$ 25,057
Due to other governmental units		11,540	14,392	25,932
TOTAL LIABILITIES		\$ 36,597	\$ 14,392	\$ 50,989

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUNDS
 For the Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
DISTRIBUTIVE FUND				
ASSETS				
Cash	\$ 4,321	\$ 892,579	\$ 860,303	\$ 36,597
LIABILITIES				
Due to other funds	\$ -	\$ 25,057	\$ -	\$ 25,057
Due to other governmental units and agencies	4,321	867,522	860,303	11,540
TOTAL LIABILITIES	\$ 4,321	\$ 892,579	\$ 860,303	\$ 36,597
ROE #27 GRANT PROGRAM				
ASSETS				
Cash	\$ 67,912	\$ 51,480	\$ 105,000	\$ 14,392
LIABILITIES				
Due to other governmental units and agencies	\$ 67,912	\$ 51,480	\$ 105,000	\$ 14,392
TOTAL - ALL AGENCY FUNDS				
ASSETS				
Cash	\$ 72,233	\$ 944,059	\$ 965,303	\$ 50,989
LIABILITIES				
Due to other funds	\$ -	\$ 25,057	\$ -	\$ 25,057
Due to other governmental units and agencies	72,233	919,002	965,303	25,932
	\$ 72,233	\$ 944,059	\$ 965,303	\$ 50,989

HENDERSON, MERCER AND WARREN COUNTIES
 REGIONAL OFFICE OF EDUCATION #27
 SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURERS AND OTHER ENTITIES
 DISTRIBUTIVE FUND
 For the Year Ended June 30, 2006

	United Dist. No. 304	ROE No. 27	Special Project	P.A.S.S.	Total
Adult Education - Federal	\$ -	\$ -	\$ -	\$ 49,775	\$ 49,775
Adult Education - Public Aid	-	-	-	41,441	41,441
Adult Education - State Performance	-	-	-	28,061	28,061
Adult Education - State	-	-	-	47,706	47,706
Athletes and Asthma	-	1,510	-	-	1,510
Bus Drivers Training Courses	-	480	-	-	480
Childcare	-	1,083	-	-	1,083
Early Childhood	-	233,438	-	-	233,438
Even Start	-	191,869	-	-	191,869
Innovative	-	-	-	175	175
Interest	-	4,456	-	-	4,456
Lunch - Federal Breakfast	-	-	-	1,327	1,327
Lunch - Federal Lunch	-	-	-	6,397	6,397
Lunch - State Free and Breakfast	833	-	-	458	1,291
Misc. Funds	-	145	-	-	145
Purchased Services	-	9,181	-	-	9,181
Regional Safe Schools	-	-	-	74,510	74,510
Safe and Drug Free Schools	-	-	-	171	171
Staff Development	-	190	-	-	190
General State Aid	-	-	-	152,042	152,042
Supervisory	-	3,000	-	-	3,000
Teen Reach	-	-	6,100	-	6,100
Title I Reading First	-	5,535	-	-	5,535
Title II Teacher Quality	-	-	-	420	420
TOTAL	\$ 833	\$ 450,887	\$ 6,100	\$ 402,483	\$ 860,303

FEDERAL COMPLIANCE SECTION

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	CFDA Number	Project # (1st Eight Digits) or Contract #	Federal Expenditures July 1, 2005 through June 30, 2006	Obligations/ Encumbrances	Final Status	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION						
Passed through Illinois State Board of Education:						
Title V - Innovative Programs - Formula	84.298A	2006-4100-00	171	-	171	-
Even Start - Statewide Family Literacy Program	* 84.213C	2006-4335-00	168,022	4,286	172,308	-
Title I - Reading First Part B SEA Funds	84.357A	2005-4337-02	203	-	203	-
Title IV - Safe & Drug Free School - Formula	84.186A	2006-4400-00	171	-	171	-
Title II - Teacher Quality	84.367A	2006-4932-00	492	-	492	-
			169,059	4,286	173,345	-
Total passed through Illinois State Board of Education						
Passed through Regional Office of Education #49:						
Standards Aligned Classroom - Statewide Professional Development	84.298A	2006-4999-00	51,029	-	51,029	-
Passed through Regional Office of Education #26:						
McKinney Education for Homeless Children	84.196A	2006-4920-00	9,460	-	9,460	-
Passed through the Illinois Community College Board:						
Adult Education State Grant Program	84.002	518AB	49,775	-	49,775	-
			279,323	4,286	283,609	-
TOTAL U.S. DEPARTMENT OF EDUCATION						
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Illinois State Board of Education						
National School Lunch Program	10.555	2006-4210-00	\$ 5,043	\$ -	5,043	\$ -
School Breakfast Program	10.553	2006-4220-00	1,027	-	1,027	-
Child and Adult Care Food Program	10.558	2006-4226-00	911	-	911	-
			6,981	-	6,981	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE						
TOTAL EXPENDITURES OF FEDERAL AWARDS						
			\$ 286,304	\$ 4,286	\$ 290,590	\$ -

(*) = Major Program

The accompanying notes are an integral part of this schedule.

HENDERSON, MERCER AND WARREN COUNTIES
REGIONAL OFFICE OF EDUCATION #27

NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS

For the Year Ended June 30, 2006

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Henderson, Mercer and Warren Counties Regional Office of Education #27 (ROE) 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.

2. SUBRECIPIENTS

The Henderson, Mercer and Warren Counties Regional Office of Education # 27 did not provide federal awards to subrecipients.

3. DESCRIPTION OF MAJOR FEDERAL PROGRAMS

The primary goal of the Even Start – Statewide Family Literacy Program is to help break the cycle of poverty and illiteracy by improving the educational opportunities of low-income families through the integration of the four components of childhood education, adult literacy, parenting education, and interactive literacy activities into a unified family literacy program for parents and children, primarily from birth through age seven.

4. NON-CASH ASSISTANCE

The Henderson, Mercer and Warren Counties Regional Office of Education #27 did not receive any Federal awards involving non-cash assistance with continuing compliance requirements.

5. AMOUNT OF INSURANCE

The Henderson, Mercer and Warren Counties Regional Office of Education #27 did not receive any Federal awards involving insurance with continuing compliance requirements.

6. LOANS OR LOAN GUARANTEES OUTSTANDING

The Henderson, Mercer and Warren Counties Regional Office of Education #27 did not receive any Federal awards involving loans or loan guarantees with continuing compliance requirements.