

State of Illinois
LAKE COUNTY REGIONAL
OFFICE OF EDUCATION NO. 34
FINANCIAL AUDIT
(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Year Ended June 30, 2011

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

TABLE OF CONTENTS

	PAGE
OFFICIALS	1
COMPLIANCE REPORT SUMMARY	2
FINANCIAL STATEMENT REPORT SUMMARY	4
INDEPENDENT AUDITORS' REPORT	5
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	7
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	9
Schedule of Findings and Questioned Costs.....	12
Corrective Action Plan for Current Year Audit Findings.....	30
Summary Schedule of Prior Audit Findings.....	37
Management's Discussion and Analysis.....	38
BASIC FINANCIAL STATEMENTS	49

EXHIBIT

Government-wide Financial Statements:	
Statement of Net Assets.....	A 50
Statement of Activities.....	B 51
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	C 52
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	D 53
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	E 54
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Governmental Funds.....	F 55

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

TABLE OF CONTENTS (Continued)

	PAGE
BASIC FINANCIAL STATEMENTS (Continued)	
	EXHIBIT
Proprietary Fund Financial Statements:	
Statement of Net Assets - Proprietary Funds G	56
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds..... H	57
Statement of Cash Flows - Proprietary Funds I	58
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets - Fiduciary Funds..... J	59
Notes to Financial Statements	60
REQUIRED SUPPLEMENTAL INFORMATION	89
Schedule of Funding Progress - Other Postemployment Benefits.....	90
SUPPLEMENTAL INFORMATION	91
	SCHEDULE
General Fund Accounts:	
Combining Schedule of Accounts..... 1	92
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances 2	93
Education Fund Accounts:	
Combining Schedule of Accounts..... 3	94
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances 4	96
Budgetary Comparison Schedule..... 5	98
Nonmajor Special Revenue Accounts:	
Combining Balance Sheet - Nonmajor Special Revenue Funds..... 6	101
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Special Revenue Funds..... 7	104
Budgetary Comparison Schedule..... 8	107

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

TABLE OF CONTENTS (Continued)

	PAGE
SUPPLEMENTAL INFORMATION (Continued)	
	SCHEDULE
Nonmajor Proprietary Funds:	
Combining Statement of Net Assets.....9	108
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets.....10	109
Combining Statement of Cash Flows	110
Fiduciary Funds:	
Statement of Changes in Assets and Liabilities - All Agency Funds.....12	111
Schedule of Disbursements to School District Treasurers and Other Entities.....13	112
Schedule of Expenditures of Federal Awards	113
Notes to the Schedule of Expenditures of Federal Awards	114

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

OFFICIALS

Regional Superintendent
(During the Audit Period and Current)

Honorable Roycealee J. Wood

Assistant Regional Superintendent
(During the Audit Period and Current)

Mr. Gary E. Pickens

Office is located at:

800 Lancer Lane
Grayslake, Illinois 60030-2656

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

COMPLIANCE REPORT SUMMARY

The compliance audit testing performed in this audit was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

AUDITORS' REPORTS

The auditors' reports on compliance and on internal controls 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	7	5
Repeated audit findings	4	1
Prior recommendations implemented or not repeated	1	0

Details of audit findings are included in a separate report section.

An additional matter which is less than a significant deficiency or material weakness but more than inconsequential, has been reported in a Management Letter of Comments to the Regional Superintendent. In prior years, this issue may have been included as an immaterial finding in the auditors' report.

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
11-1	13	Controls Over Financial Statement Preparation	Material Weakness
11-2	15	Failure to Apply Appropriate Accounting Principles	Significant Deficiency
11-3	17	Inadequate Controls Over Purchased Services Expenditures	Significant Deficiency
11-4	19	Inadequate Internal Controls Over Cash	Material Weakness
11-5	21	Inadequate Internal Controls Over Reporting and Inaccurate Expenditure Reports	Significant Deficiency and Noncompliance
11-6	23	Inadequate Documentation for Payroll Expenditures	Material Weakness and Noncompliance
FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)			
11-6	23	Inadequate Documentation for Payroll Expenditures	Material Weakness and Noncompliance
11-7	28	Inadequate Documentation for Expenditure Reports	Significant Deficiency and Noncompliance

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

COMPLIANCE REPORT SUMMARY

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)			
10-3	37	Controls for Reporting Accrued Compensated Absences	Material Weakness

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

None

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Agency personnel at a formal exit conference held on June 8, 2012. Attending were Honorable Roycealee J. Wood, Regional Superintendent, Gary E. Pickens, Assistant Regional Superintendent, Kay Klemens, Principal Accountant, Bernice Hawkins, Senior Accounting Specialist, Andrea Kowitz Administrative Assistant, and Jill Van Roekel, auditor with Winkel, Parker & Foster, CPA PC. Responses to the recommendations were provided by Kay Klemens, Principal Accountant, on May 4, 2012.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34

FINANCIAL STATEMENT REPORT SUMMARY

The audit of the accompanying basic financial statements of the Lake County Regional Office of Education No. 34 was performed by Winkel, Parker & Foster, CPA PC.

Based on their audit, the auditors expressed an unqualified opinion on the Lake County Regional Office of Education No. 34's basic financial statements.

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lake County Regional Office of Education No. 34, as of and for the year ended June 30, 2011, which collectively comprise the Lake County Regional Office of Education No. 34's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Lake County Regional Office of Education No. 34's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lake County Regional Office of Education No. 34, as of June 30, 2011, 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.

The Lake County Regional Office of Education No. 34 adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the year ended June 30, 2011. The statement changed the classifications of governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on any of the Lake County Regional Office of Education No. 34's governmental funds' assets or liabilities nor was there any effect to the total amount of any of the Lake County Regional Office of Education No. 34's governmental fund balances as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2012 on our consideration of Lake County Regional Office of Education No. 34's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Schedule of Funding Progress - Other Postemployment Benefits on pages 39 through 48 and 90 are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lake County Regional Office of Education No. 34's basic financial statements. The accompanying supplemental information, such as the combining and individual nonmajor fund financial statements, budgetary comparison schedules, and the Schedule of Disbursements to School District Treasurers and Other Entities are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, Schedule of Disbursements to School District Treasurers and Other Entities, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
June 18, 2012



**Winkel, Parker
& Foster, CPA PC**

Certified Public Accountants & Consultants

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lake County Regional Office of Education No. 34, as of and for the year ended June 30, 2011, which collectively comprise the Lake County Regional Office of Education No. 34's basic financial statements and have issued our report thereon dated June 18, 2012. 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

Management of the Lake County Regional Office of Education No. 34 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Lake County Regional Office of Education No. 34's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 11-1, 11-4, and 11-6 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in findings 11-2, 11-3, and 11-5 in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lake County Regional Office of Education No. 34's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 11-5 and 11-6.

We also noted a certain matter which we have reported to management of the Lake County Regional Office of Education No. 34 in a separate letter dated June 18, 2012.

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

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

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
June 18, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited Lake County Regional Office of Education No. 34's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lake County Regional Office of Education No. 34's major federal programs for the year ended June 30, 2011. The Lake County Regional Office of Education No. 34'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 Lake County Regional Office of Education No. 34's management. Our responsibility is to express an opinion on the Lake County Regional Office of Education No. 34's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Lake County Regional Office of Education No. 34's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Lake County Regional Office of Education No. 34's compliance with those requirements.

As described in item 11-6 in the accompanying Schedule of Findings and Questioned Costs, the Lake County Regional Office of Education No. 34 did not comply with requirements regarding allowable costs/cost principles that are applicable to its Title I, Part A Cluster. Compliance with such requirements is necessary, in our opinion, for the Lake County Regional Office of Education No. 34 to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Lake County Regional Office of Education No. 34 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The results of our auditing procedures also disclosed another instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-7.

Internal Control Over Compliance

Management of the Lake County Regional Office of Education No. 34 is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Lake County Regional Office of Education No. 34's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Lake County Regional Office of Education No. 34's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-6 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-7 to be a significant deficiency.

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

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

Winkel, Parker & Foster, CPA PC

Clinton, Iowa
June 18, 2012

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Section I: Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified? x yes none reported

Noncompliance material to financial statements noted? x yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? x yes no
- Significant deficiency(ies) identified? x yes none reported

Type of auditor's report issued on compliance for major programs:
Qualified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title I, Part A Cluster
84.389A	

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

Auditee qualified as low-risk auditee? yes x no

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-1 - Controls Over Financial Statement Preparation (Repeat from 2010 - No. 10-1)

Criteria/Specific Requirement:

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

Condition:

The Regional Office of Education No. 34 does not have sufficient internal controls over the financial reporting process. The Regional Office of Education No. 34 maintains their accounting records on the cash basis of accounting. While the Regional Office of Education No. 34 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect and correct financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Regional Office of Education No. 34's accounting records, noted numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.

Effect:

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

Cause:

The Regional Office of Education No. 34 does not have proper controls in place over the preparation of financial statements to ensure that they are presented in accordance with generally accepted accounting principles.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-1 - Controls Over Financial Statement Preparation (Repeat from 2010 - No. 10-1) (Continued)

Recommendation:

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

Management's Response:

The Lake ROE agrees with the finding and will continue to implement comprehensive preparation and review procedures to insure that financial statements including disclosures are complete and accurate. Included in the corrective activities are contracting with a private Certified Public Accountant firm to provide independent review, consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy). In addition, the Lake ROE has conducted additional training regarding successful use of the Lake ROE's financial management software and has contracted with a part-time business consultant who is reviewing Lake ROE business procedures and controls. Finally, in an effort to streamline preparation of comprehensive financial statements, the Lake ROE has begun consolidating multiple installations of the financial management software into one cohesive system by the end of Fiscal Year 2013.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-2 - Failure to Apply Appropriate Accounting Principles (Repeat from 2010 - No. 10-2)

Criteria/Specific Requirement:

Generally accepted accounting principles (GAAP) require that a lease be capitalized if any one of the following four criteria is a characteristic of the lease transaction: 1) the lease transfers ownership of the property to the lessee by the end of the lease term, 2) the lease contains bargain purchase options, 3) the lease term is equal to 75% or more of the estimated economic life of the leased property, or 4) the present value of the minimum lease payments at the inception of the lease, excluding executor costs, equals at least 90% of the fair value of the leased property. Capital leases are treated as an acquisition of assets and the incurrence of obligations by the lessee. In addition, sound internal controls require that an inventory of all fixed assets and depreciation schedules for assets meeting the capitalization threshold for reporting be properly maintained.

Condition:

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

The Regional Office of Education No. 34 capitalizes items costing \$5,000 or more. The capitalization of assets and related depreciation expense were recognized in the governmental and business-type activities of the government-wide Statement of Net Assets. Based on our review of the schedule of capitalized assets and related depreciation (schedule), the following were noted:

- Items costing less than \$5,000 were included in the schedule,
- Item costing more than \$5,000 was not included in the schedule,
- Three of the five capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations, and
- Two of the five capital lease equipment items were not included in the schedule.

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

Effect:

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-2 - Failure to Apply Appropriate Accounting Principles (Repeat from 2010 - No. 10-2) (Continued)

Cause:

For monitoring purposes, the Regional Office of Education No. 34 maintains a fixed asset listing with equipment items costing \$500 and above. The Regional Office of Education No. 34 did not properly include and exclude items above and below the capitalization threshold of \$5,000 when calculating and recording fixed asset additions and depreciation expense. In addition, the Regional Office of Education No. 34 did not have personnel with adequate training and knowledge to record capital lease transactions in accordance with GAAP.

Recommendation:

The Regional Office of Education No. 34 should establish procedures to ensure that transactions are properly accounted for and reported in accordance with generally accepted accounting principles. If necessary, accounting and reporting guidance should be obtained from technical resources to be in conformity with GAAP. The fixed asset schedule should also be completed to include all capital lease items, and only capital assets above the capitalization threshold.

Management's Response:

The Lake ROE agrees with the finding and will post recommended adjusting entries to record transactions in accordance with GAAP. In addition, previous adjustments made to the fixed assets/inventory schedule and reporting procedures will be further reviewed and refined as a part of a recently contracted business consultant's scope of work. This review and refinement will be accompanied by desk-side training of staff involved with fixed assets/inventory schedules and/or calculation of depreciation schedules.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-3 - Inadequate Controls Over Purchased Services Expenditures
(Repeat from 2010 - No. 10-4, 2009 - No. 09-1, and 2008 - No. 08-1)

Criteria/Specific Requirement:

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

Condition:

For 1 of 6 contracts selected for testing, the Educational Services Division (ESD) was unable to provide a signed contract that covered the period selected for testing. In addition, for 1 of 6 contracts selected for testing, the Regional Office of Education No. 34 did not maintain documentation to support the hours worked and services provided. The amount paid totaled \$35,584 and was paid from local funding. The contract was executed with the Assistant Regional Superintendent under a consultant agreement to act as the Executive Director for the Regional Office of Education No. 34's blended component unit, Educational Services Division (ESD). The ESD is responsible for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and federal grant supported programs and services in education. The Regional Office of Education No. 34 is the administrative and fiscal agent for the ESD.

Effect:

Failure to maintain contracts or documentation of the hours worked and the services provided, may result in services being provided that are inconsistent with program goals and activities, inadequate protection of the Regional Office of Education No. 34's interests, and unallowed costs charged to programs.

Cause:

Proper controls have not been established to ensure that all contractual payments are supported by signed contracts and that documentation of hours worked and services provided are maintained.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-3 - Inadequate Controls Over Purchased Services Expenditures
(Repeat from 2010 - No. 10-4, 2009 - No. 09-1, and 2008 - No. 08-1) (Continued)

Recommendation:

The Regional Office of Education No. 34 should establish procedures to ensure all program costs are sufficiently documented and adequately supported. All consultant agreements should be supported by a current written contract with detailed scope of services and rates of compensation. The Regional Office of Education No. 34 should also maintain documentation to support hours worked and the services provided.

Management's Response:

The Lake ROE agrees with the finding and will refine internal procedures to ensure all consultant agreements are supported by a current, timely written contract with scope of services and rates of compensation. The Lake ROE has developed a system to document and generate supporting materials to track hours worked and services provided.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-4 - Inadequate Internal Controls Over Cash

Criteria/Specific Requirement:

Adequate internal controls over cash require that all cash in the custody of the Regional Office of Education No. 34 be recorded in the general ledger and that each month's bank statement be reconciled to the related general ledger account balances.

Condition:

The Regional Office of Education No. 34's Educational Services Division (ESD) was not performing monthly bank reconciliations appropriately. Auditors noted that the ESD's ending adjusted general ledger balance for their operating cash account was not properly reconciled to the bank account as of June 30, 2011. Material transactions were not included in the original trial balance received by the auditors. Subsequent to auditors' inquiry of the material cash variance, the ESD reviewed their general ledger accounts, recorded transactions previously unrecorded in the general ledger, and reconciled their cash account.

Effect:

Lack of appropriately reconciled monthly bank statements could result in unintentional or intentional errors or fraud, where the errors or fraud could be material to the financial statements and may not be detected and corrected in a timely manner by employees in the normal course of performing their assigned duties.

Cause:

The Regional Office of Education No. 34 has inadequate internal controls in place to ensure that bank statements are reconciled to the related general ledger cash accounts and that all activity occurring during the year is actually recorded.

Recommendation:

The Regional Office of Education No. 34's management should review and document in writing that each of their bank accounts reconcile to their related general ledger account balances on a monthly basis. Reconciliations should be completed in a timely manner and management should ensure that all reconciling items are reviewed with the appropriate follow-up. The bookkeepers should reconcile all activity that takes place in the account and track reconciling items to ensure proper treatment.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-4 - Inadequate Internal Controls Over Cash (Continued)

Management's Response:

The Lake ROE agrees with the finding and has re-instated a system of reconciling all bank accounts to the related general ledger on a regular and recurring (monthly) basis. As a result of independent review by a contracted Business Consultant, internal control procedures are being developed to ensure reconciliations are completed in a timely manner. These procedures include redundant reviews and management will ensure that all reconciling items are reviewed with the appropriate follow-up. Bookkeepers are tasked to reconcile all activity that takes place in the accounts and track reconciling items to ensure proper treatment.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-5 - Inadequate Internal Controls Over Reporting and Inaccurate Expenditure Reports

Criteria/Specific Requirement:

Good business practices dictate that proper internal controls, such as management review and approval of expenditure reports submitted to granting agencies, should be in place. Amounts submitted on grant expenditure reports should be in agreement and reconcile with the general ledger.

Condition:

The Regional Office of Education No. 34 does not have adequate controls in place to ensure amounts submitted on grant expenditure reports are in agreement and reconcile with the general ledger. Auditors, during their review of expenditure reports, noted the following:

- The expenditure report submitted for June 30, 2011 for the ROE/ISC Operations grant, which was received from the Illinois State Board of Education, was inaccurately reported. The Regional Office of Education No. 34 reported budgeted amounts as expenditures on their report. When compared to the expenditures recorded in the general ledger, most categories were under reported while the purchased services category was over reported by \$10,778. In total, actual expenditures recorded were in excess of the total amount reported.
- The expenditure report submitted for June 30, 2011 for the Beginning Teacher Induction Pilot Program grant, which was received from the Illinois State Board of Education, was inaccurately reported. The Regional Office of Education No. 34 reported budgeted amounts as expenditures on their report. When compared to the expenditures recorded in the general ledger, most categories were over reported while the purchased services category was under reported by \$330. In total, actual expenditures recorded were less than the amount reported by \$10,670.
- The expenditure report submitted for June 30, 2011 for the McKinney Education for Homeless Education grant, which was received from Will County Regional Office of Education No. 56, was inaccurately reported. When compared to the expenditures recorded in the general ledger, all categories were inaccurately reported. This was due to reclassifications made in the general ledger and not including expenditures for the entire fiscal year. In total, actual expenditures recorded were in excess of the amounts reported.

Effect:

Inadequate controls over financial reporting may result in inaccurate reporting of expenditures. Inaccurate reporting of expenditures may result in the Regional Office of Education No. 34 receiving funding for expenditures that were not allowable or actually incurred. Inability to substantiate amounts reported could also result in the Regional Office of Education No. 34 refunding portions of their grant awards or having portions of their current or future grant awards altered.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-5 - Inadequate Internal Controls Over Reporting and Inaccurate Expenditure Reports (Continued)

Cause:

The Regional Office of Education No. 34 has inadequate internal controls in place to ensure that expenditure reports submitted to granting agencies agree and reconcile to the general ledger. Therefore, expenditure reports submitted did not agree and reconcile with amounts reported in the general ledger.

Recommendation:

The Regional Office of Education No. 34's management should review expenditure reports and supporting documentation prior to submission to granting agencies to ensure that expenditures were actually incurred, allowable, and properly classified. Supporting expenditure documentation and indication of management's review should be included with a copy of the report and available for subsequent internal and external review and analysis. In addition, Regional Office of Education No. 34 should contact Illinois State Board of Education to determine the need to amend its expenditure reports.

Management's Response:

The Lake ROE agrees with the finding. Year-end errors in expenditure reports were due to loss of critical expertise in expenditure report preparation, inexperience in both preparing and reviewing staff members regarding expenditure reports, and failures to reconcile (with documentation) expenditures to budgeted categories and amounts. As a result, management controls have been put in place to ensure full supporting documentation is available for all expenditure reports and that expenditures align with budgeted categories. The Lake ROE will contact the Illinois State Board of Education to determine whether the need exists to amend the expenditure reports.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5)

Federal Program: Title I - School Improvement and Accountability

Project Number: 2011-4331-SS

CFDA Number: 84.010A

Passed Through: Will County Regional Office of Education No. 56

Federal Agency: U.S. Department of Education

Federal Program: ARRA Title I - School Improvement and Accountability

Project Number: 2011-4854-00

CFDA Number: 84.389A

Passed Through: Illinois State Board of Education

Federal Agency: U.S. Department of Education

Criteria/Specific Requirement:

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

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

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5) (Continued)

Criteria/Specific Requirement: (Continued)

- a. They must reflect an after the fact distribution of the actual activity of each employee;
- b. They must account for the total activity for which each employee is compensated;
- c. They must be prepared at least monthly and must coincide with one or more pay periods;
- d. They must be signed by the employee; and
- e. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes provided that:
 - The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
 - At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
 - The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances. (OMB Circular A-87, Attachment B, paragraphs 8.h. (4), (5), and (6))

Condition:

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

- Salaries and benefits for salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program.
- Employees who worked solely on federal grant programs did not prepare the required semi-annual certification stating that they had worked full time on those programs.

Questioned Costs:

Not determinable.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5) (Continued)

Context:

The salaries and benefits expenditures for the Regional Office of Education No. 34 for fiscal year 2011 totaled \$2,260,342, of which \$922,131 pertains to Title I - School Improvement and Accountability, and \$301,851 pertains to ARRA Title I - School Improvement and Accountability.

Effect:

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

Cause:

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

Recommendation:

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section II: Financial Statement Findings:

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5) (Continued)

Management's Response:

The Lake ROE agrees with this finding. While the Lake ROE had begun implementation of corrective action regarding this repeat finding, the corrective actions did not encompass all of the requirements of OMB Circular A-87. The Lake ROE has developed and implemented time and effort accounting policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures require staff involved in multiple programs to submit time sheets by program or time and effort reports by program. The Lake ROE will also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted or pre-determined allocation rates on a regular basis. Payroll charges by program will be reviewed based on the time devoted and will be identified specifically to the performance of the applicable programs. Additionally, semi-annual certifications for employees who work solely on federal grant programs stating that they had worked full time on those programs are now being prepared.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011**

Section III: Federal Award Findings:

Instances of Noncompliance

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5) (finding details on pages 23-26)

Material Weakness

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5) (finding details on pages 23-26)

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section III: Federal Award Findings:

FINDING NO. 11-7 - Inadequate Documentation for Expenditure Reports

Federal Program: Title I - School Improvement and Accountability

Project Number: 2011-4331-SS

CFDA Number: 84.010A

Passed Through: Will County Regional Office of Education No. 56

Federal Agency: U.S. Department of Education

Federal Program: ARRA Title I - School Improvement and Accountability

Project Number: 2011-4854-00

CFDA Number: 84.389A

Passed Through: Illinois State Board of Education

Federal Agency: U.S. Department of Education

Criteria/Specific Requirement:

Amounts submitted on grant expenditure reports to the Illinois State Board of Education and to Will County Regional Office of Education No. 56 should be in agreement with the general ledger.

Condition:

The Regional Office of Education No. 34 did not report expenditures in agreement with the general ledger. The total amount reported was overstated on the ARRA Title I - School Improvement & Accountability grant program final expenditure report by \$21,545. The total amount reported was overstated on the Title I - School Improvement & Accountability grant program final expenditure report by \$51,932.

Questioned Costs:

The Regional Office of Education No. 34 reported expenditures of \$480,000 on their final ARRA Title I - School Improvement & Accountability expenditure report. Actual expenditures recorded in the general ledger totaled \$458,455. This resulted in questioned costs of \$21,545. The Regional Office of Education No. 34 reported total expenditures of \$1,517,660 for the period of July 1, 2010 through June 30, 2011 on their Title I - School Improvement & Accountability expenditure reports. Actual expenditures recorded in the general ledger totaled \$1,465,728. This resulted in questioned costs of \$51,932.

Context:

Of the six expenditure reports selected for testing, the Regional Office of Education No. 34 was unable to provide supporting documentation or reconciliation of amounts reported to the general ledger for four of those reports. Questioned costs in total by grant are indicated above.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

Section III: Federal Award Findings:

FINDING NO. 11-7 - Inadequate Documentation for Expenditure Reports (Continued)

Effect:

The Regional Office of Education No. 34 may have received funds for expenditures that were not allowable or actually incurred. The final expenditure report that was submitted to the pass-through entity (Illinois State Board of Education) for the ARRA Title I - School Improvement & Accountability grant program did not accurately reflect the activity of the period and overstated actual expenditures by \$21,545. The total of expenditure reports that were submitted to the pass-through entity (Will County Regional Office of Education No. 56) for the Title I - School Improvement & Accountability grant program did not accurately reflect the activity of the period and overstated actual expenditures by \$51,932. Inability to substantiate amounts reported could also result in the Regional Office of Education No. 34 refunding portions of their grant awards or having portions of their current or future grant awards altered.

Cause:

The Regional Office of Education No. 34 has inadequate controls over the reporting process. The Regional Office did not have supporting documents that reconciled the amounts incurred to the amounts reported.

Recommendation:

The Regional Office of Education No. 34's management should review expenditure reports and supporting documentation prior to submission to granting agencies to ensure that expenditures were actually incurred, allowable, and properly classified. Supporting expenditure documentation and indication of management's review should be included with a copy of the report and available for subsequent internal and external review and analysis. In addition, the Regional Office of Education No. 34 should contact Illinois State Board of Education and Will County Regional Office of Education No. 56 to determine the need to amend its expenditure reports.

Management's Response:

The Lake ROE agrees with the finding. Year-end errors in expenditure reports were due to loss of critical expertise in expenditure report preparation, inexperience in both preparing and reviewing staff members regarding expenditure reports, and failures to reconcile (with documentation) expenditures to budgeted categories and amounts. As a result, management controls have been put in place to ensure full supporting documentation is available for all expenditure reports and that expenditures align with budgeted categories. In addition, procedures now include comparisons of obligations (where payment has been received) to subsequent expenditures claimed to avoid double payment of an obligation when it becomes an actual expenditure. The Lake ROE will contact the Illinois State Board of Education and the Will County Regional Office of Education (area grant manager) to determine whether the need exists to amend the expenditure reports, return over-payments, or adjust current year/future grant awards to offset the overpayments.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-1 - Controls Over Financial Statement Preparation (Repeat from 2010 - No. 10-1)

Condition:

The Regional Office of Education No. 34 does not have sufficient internal controls over the financial reporting process. The Regional Office of Education No. 34 maintains their accounting records on the cash basis of accounting. While the Regional Office of Education No. 34 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of the GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect and correct financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Regional Office of Education No. 34's accounting records, noted numerous adjustments were required to present financial statements in accordance with generally accepted accounting principles.

Plan:

- Continue to implement a comprehensive preparation and review procedures to insure that financial statements including disclosures are complete and accurate.
- Contract with appropriate firms and consultants to provide independent review, consulting services and training to Lake ROE finance staff regarding preparation of financial statements (including review for completeness and accuracy).
- Continue to conduct additional training regarding successful use of the Lake ROE's financial management software.
- Continue contract with a part-time business consultant to review Lake ROE business procedures and controls.
- Align state account codes for all divisions with the Illinois Program Accounting Manual (IPAM) as a part of future account consolidation efforts.

Anticipated Completion Date:

Currently in progress. Expected completion by June 30, 2012 for preparation of Fiscal Year 2012 financial statements.

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-2 - Failure to Apply Appropriate Accounting Principles (Repeat from 2010 - No. 10-2)

Condition:

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

The Regional Office of Education No. 34 capitalizes items costing \$5,000 or more. The capitalization of assets and related depreciation expense were recognized in the governmental and business-type activities of the government-wide Statement of Net Assets. Based on our review of the schedule of capitalized assets and related depreciation (schedule), the following were noted:

- Items costing less than \$5,000 were included in the schedule,
- Item costing more than \$5,000 was not included in the schedule,
- Three of the five capital lease equipment items tested were listed at cost equal to the total lease payments and not at the present value of the lease obligations, and
- Two of the five capital lease equipment items were not included in the schedule.

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

Plan:

- Post recommended adjusting entries to record transactions in accordance with GAAP.
- Review and refine previous adjustments made to the fixed assets/inventory schedule and reporting procedures as a part of a recently contracted business consultant's scope of work.
- Provide desk-side training to staff involved with fixed assets/inventory schedules and/or calculation of depreciation schedules.

Anticipated Completion Date:

Currently in progress. Projected completion date is June 30, 2012 (prior to preparation of financial statements for Fiscal Year 2012 audit).

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

**FINDING NO. 11-3 - Inadequate Controls Over Purchased Services Expenditures
(Repeat from 2010 - No. 10-4, 2009 - No. 09-1, and 2008 - No. 08-1)**

Condition:

For 1 of 6 contracts selected for testing, the Educational Services Division (ESD) was unable to provide a signed contract that covered the period selected for testing. In addition, for 1 of 6 contracts selected for testing, the Regional Office of Education No. 34 did not maintain documentation to support the hours worked and services provided. The amount paid totaled \$35,584 and was paid from local funding. The contract was executed with the Assistant Regional Superintendent under a consultant agreement to act as the Executive Director for the Regional Office of Education No. 34's blended component unit, Educational Services Division (ESD). The ESD is responsible for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and federal grant supported programs and services in education. The Regional Office of Education No. 34 is the administrative and fiscal agent for the ESD.

Plan:

- Refine internal procedures to ensure all consultant agreements are supported by a current, timely written contract with scope of services and rates of compensation.
- Maintain system to document and generate supporting materials to track hours worked and services provided.

Anticipated Completion Date:

Immediately

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-4 - Inadequate Internal Controls Over Cash

Condition:

The Regional Office of Education No. 34's Educational Services Division (ESD) was not performing monthly bank reconciliations appropriately. Auditors noted that the ESD's ending adjusted general ledger balance for their operating cash account was not properly reconciled to the bank account as of June 30, 2011. Material transactions were not included in the original trial balance received by the auditors. Subsequent to auditors' inquiry of the material cash variance, the ESD reviewed their general ledger accounts, recorded transactions previously unrecorded in the general ledger, and reconciled their cash account.

Plan:

- Re-instate and monitor a system of reconciling all bank accounts to the related general ledger on a regular and recurring (monthly) basis.
- Conduct independent review and develop internal control procedures to ensure reconciliations are completed in a timely manner.
- Establish redundant reviews to ensure accuracy.
- Ensure that all reconciling items are reviewed with the appropriate follow-up.
- Task bookkeepers to reconcile all activity that takes place in the accounts and track reconciling items to ensure proper treatment.
- Provide necessary supporting staff development for clerical and managerial staff involved in the reconciliation process.

Anticipated Completion Date:

Currently in progress. Estimated completion date June 30, 2012 (prior to reconciling and closing Fiscal Year 2012).

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-5 - Inadequate Internal Controls Over Reporting and Inaccurate Expenditure Reports

Condition:

The Regional Office of Education No. 34 does not have adequate controls in place to ensure amounts submitted on grant expenditure reports are in agreement and reconcile with the general ledger. Auditors, during their review of expenditure reports, noted the following:

- The expenditure report submitted for June 30, 2011 for the ROE/ISC Operations grant, which was received from the Illinois State Board of Education, was inaccurately reported. The Regional Office of Education No. 34 reported budgeted amounts as expenditures on their report. When compared to the expenditures recorded in the general ledger, most categories were under reported while the purchased services category was over reported by \$10,778. In total, actual expenditures recorded were in excess of the total amount reported.
- The expenditure report submitted for June 30, 2011 for the Beginning Teacher Induction Pilot Program grant, which was received from the Illinois State Board of Education, was inaccurately reported. The Regional Office of Education No. 34 reported budgeted amounts as expenditures on their report. When compared to the expenditures recorded in the general ledger, most categories were over reported while the purchased services category was under reported by \$330. In total, actual expenditures recorded were less than the amount reported by \$10,670.
- The expenditure report submitted for June 30, 2011 for the McKinney Education for Homeless Education grant, which was received from Will County Regional Office of Education No. 56, was inaccurately reported. When compared to the expenditures recorded in the general ledger, all categories were inaccurately reported. This was due to reclassifications made in the general ledger and not including expenditures for the entire fiscal year. In total, actual expenditures recorded were in excess of the amounts reported.

Plan:

- Provide appropriate training to staff regarding preparing and reviewing expenditure reports.
- Reconcile all submitted expenditure reports with appropriate supporting expenditure documents and maintain supporting documents with expenditure reports.
- Reconcile claimed expenditures to approved program budget categories.
- Contact the Illinois State Board of Education to determine whether the need exists to amend the expenditure reports.

Anticipated Completion Date:

Currently in progress. Estimated completion date is July 31, 2012.

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-6 - Inadequate Documentation for Payroll Expenditures (Repeat from 2010 - No. 10-5)

Federal Program: Title I - School Improvement and Accountability
Project Numbers: 2011-4935-SS
CFDA Numbers: 84.010A
Passed Through: Will County Regional Office of Education No. 56
Federal Agency: U.S. Department of Education

Federal Program: ARRA Title I - School Improvement and Accountability
Project Numbers: 2011-4854-00
CFDA Numbers: 84.389A
Passed Through: Illinois State Board of Education
Federal Agency: U.S. Department of Education

Condition:

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

- Salaries and benefits for salaried employees assigned on multiple programs were allocated and charged to the programs based on budgets. No time allocation sheets or time and effort reports were prepared to account for actual time charged by program.
- Employees who worked solely on federal grant programs did not prepare the required semi-annual certification stating that they had worked full time on those programs.

Plan:

- Continue implementation of corrective actions in progress.
- Promulgate and enforce developed and implemented time and effort accounting policies and procedures to ensure compliance.
- Require staff involved in multiple programs to submit time sheets by program and/or time and effort reports by program.
- Establish a payroll cost allocation procedure that allows for regular computation and comparison of actual time charged with budgeted or pre-determined allocation rates.
- Review payroll charges by program regularly.
- Continue semi-annual certifications for employees who work solely on federal grant programs.

Anticipated Completion Date:

Currently in progress. Estimated completion date is June 30, 2012. Full use of new procedures to be in place for Fiscal Year 2013.

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
Year Ended June 30, 2011**

FINDING NO. 11-7 - Inadequate Documentation for Expenditure Reports

Federal Program: Title I - School Improvement and Accountability

Project Numbers: 2011-4935-SS

CFDA Numbers: 84.010A

Passed Through: Will County Regional Office of Education No. 56

Federal Agency: U.S. Department of Education

Federal Program: ARRA Title I - School Improvement and Accountability

Project Numbers: 2011-4854-00

CFDA Numbers: 84.389A

Passed Through: Illinois State Board of Education

Federal Agency: U.S. Department of Education

Condition:

The Regional Office of Education No. 34 did not report expenditures in agreement with the general ledger. The total amount reported was overstated on the ARRA Title I - School Improvement & Accountability grant program final expenditure report by \$21,545. The total amount reported was overstated on the Title I - School Improvement & Accountability grant program final expenditure report by \$51,932.

Plan:

- Provide appropriate training to staff regarding preparing and reviewing expenditure reports.
- Reconcile all submitted expenditure reports with appropriate supporting expenditure documents and maintain supporting documents with expenditure reports.
- Reconcile claimed expenditures to approved program budget categories.
- Contact the Illinois State Board of Education and the Will County Regional Office of Education (area grant manager) to determine whether the need exists to amend the expenditure reports, return over-payments, or adjust current year/future grant awards to offset the overpayments.

Anticipated Completion Date:

Currently in progress. Estimated completion date is July 31, 2012.

Contact Person Responsible for Corrective Action:

Honorable Roycealee Wood, Regional Superintendent

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2011

<u>Finding Number</u>	<u>Condition</u>	<u>Current Status</u>
10-1	Controls Over Financial Statement Preparation	Repeated
10-2	Failure to Apply Appropriate Accounting Principles	Repeated
10-3	Controls for Reporting Accrued Compensated Absences	Resolved
10-4	Inadequate Controls Over Purchased Services Expenditures	Repeated
10-5	Inadequate Documentation for Payroll Expenditures	Repeated

MANAGEMENT'S DISCUSSION AND ANALYSIS

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Lake County Regional Office of Education No. 34 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011 with comparative information for the year ended June 30, 2010. Readers are encouraged to consider the information in conjunction with Lake County Regional Office of Education No. 34's basic financial statements.

During fiscal year 2011 the Lake County Regional Office of Education No. 34 implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which required certain programs and funds to be reclassified as detailed in Note 15 to the financial statements. Lake County Regional Office of Education No. 34 also restated beginning fund balances as detailed in Note 16 to the financial statements. Because of these reclassifications and restatements, the fund analysis is not comparable between fiscal year 2010 and fiscal year 2011.

2011 FINANCIAL HIGHLIGHTS

- Within the Governmental Funds, the General Fund revenues increased from \$1,539,538 in 2010 to \$3,194,189 in 2011 mostly due to fund reclassifications. The General Fund expenditures also increased from \$1,639,892 in 2010 to \$2,978,931 in 2011 mostly due to fund reclassifications.
- Within the Governmental Funds, the Special Revenue Fund revenues decreased from \$5,884,490 in 2010 to \$4,368,056 in 2011 due to fund reclassifications and fluctuations in grant funding. The Special Revenue Fund expenditures decreased from \$6,847,312 in 2010 to \$4,675,030 in 2011 due to fund reclassifications and fluctuations in grant funding.
- The Proprietary Fund revenues decreased from \$373,374 in 2010 to \$317,730 in 2011 due to reduced workshop enrollments. The Proprietary Fund expenditures decreased from \$390,394 in 2010 to \$247,302 in 2011 due to decreased workshop expenses.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- *Management's Discussion and Analysis* introduces financial statements and provides an analytical overview of Lake County Regional Office of Education No. 34's financial activities.
- The *Government-wide Financial Statements* consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Lake County Regional Office of Education No. 34 as a whole and present an overall view of Lake County Regional Office of Education No. 34's finances.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

- The *fund financial statements* tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Lake County Regional Office of Education No. 34's operations in more detail than the government-wide statements by providing information about the most significant funds.
- *Notes to financial statements* provide additional information that is needed for a full understanding of the data provided in the basic financial statements.
- *Required Supplemental Information* further explains and supports the financial statements, and other supplemental information includes combining financial statements and budgetary information for certain General Fund accounts, Education Fund accounts, and other non-major funds.
- *Other Supplemental Information* provides detailed information about the major and nonmajor funds.

REPORTING LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34 AS A WHOLE

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

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about Lake County Regional Office of Education No. 34 as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of Lake County Regional Office of Education No. 34's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid using generally accepted accounting principles of GASB 34.

The government-wide financial statements report Lake County Regional Office of Education No. 34's net assets and how they have changed. Net assets - the difference between Lake County Regional Office of Education No. 34's assets and liabilities - are one way to measure Lake County Regional Office of Education No. 34's financial health or financial position.

- Over time, increases or decreases in net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess Lake County Regional Office of Education No. 34'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.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

In the government-wide financial statements, Lake County Regional Office of Education No. 34's activities are divided into two categories:

- *Governmental activities:* Most of Lake County Regional Office of Education No. 34's basic services are included here, such as grants and statutory funds. Federal and state grant proceeds finance most of these activities.
- *Business-type activities:* Lake County Regional Office of Education No. 34 charges fees to help cover the costs of certain services it provides.

Fund Financial Statements

The fund financial statements provide detailed information about Lake County Regional Office of Education No. 34's funds. Funds are accounting devices that allow the tracking of specific sources of funding and spending on particular programs. Some funds are required by state law. Lake County Regional Office of Education No. 34 establishes other funds to control and manage money for particular purposes, such as accounting for special revenue funds, or to show that it is properly using certain revenues, such as federal grants.

Lake County Regional Office of Education No. 34 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 the year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer resources that can be spent in the near future to finance the Regional Office's programs. Lake County Regional Office of Education No. 34's Governmental Funds include: the General Fund and the Special Revenue Funds. The governmental funds required financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

2) *Proprietary funds:* account for resources from fees charged directly to those entities or individuals that use its services. Proprietary fund statements provide both long-term and short-term financial information consistent with the focus provided by government-wide financial statements but with more detail for major and nonmajor enterprise funds. The proprietary funds required financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses, and Changes in Fund Net Assets, and a Statement of Cash Flows.

3) *Fiduciary funds:* account for assets held by the Lake County Regional Office of Education No. 34 in a trust capacity or as an agent for individuals and private or governmental organizations. These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The fiduciary funds required financial statements include a Statement of Fiduciary Net Assets.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve when examined over time as one indicator of the financial position of Lake County Regional Office of Education No. 34. The net assets at the end of fiscal year 2011 and 2010 totaled \$2,553,220 and \$1,985,331, respectively. The analysis that follows provides a summary of Lake County Regional Office of Education No. 34's net assets as of June 30.

Condensed Statement of Net Assets

<u>2011</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Current assets	\$ 3,575,186	\$ 106,357	\$ 3,681,543
Capital assets, being depreciated, net	<u>103,134</u>	<u>727</u>	<u>103,861</u>
Total assets	<u>3,678,320</u>	<u>107,084</u>	<u>3,785,404</u>
Current liabilities	799,316	312,851	1,112,167
Non-current liabilities	<u>120,017</u>	<u>-</u>	<u>120,017</u>
Total liabilities	<u>919,333</u>	<u>312,851</u>	<u>1,232,184</u>
Net assets			
Investment in capital assets, net of related debt	25,243	727	25,970
Unrestricted	1,710,629	(206,494)	1,504,135
Restricted for educational purposes	<u>1,023,115</u>	<u>-</u>	<u>1,023,115</u>
Total net assets	<u>\$ 2,758,987</u>	<u>\$ (205,767)</u>	<u>\$ 2,553,220</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

<u>2010</u>	Governmental Activities	Business- Type Activities	Total
Current assets	\$ 4,663,058	\$ 249,438	\$ 4,912,496
Capital assets, being depreciated, net	<u>125,210</u>	<u>3,395</u>	<u>128,605</u>
Total assets	<u>4,788,268</u>	<u>252,833</u>	<u>5,041,101</u>
Current liabilities	2,275,617	527,221	2,802,838
Non-current liabilities	<u>251,125</u>	<u>1,807</u>	<u>252,932</u>
Total liabilities	<u>2,526,742</u>	<u>529,028</u>	<u>3,055,770</u>
Net assets			
Investment in capital assets, net of related debt	13,381	3,395	16,776
Unrestricted	1,808,574	(279,590)	1,528,984
Restricted for educational purposes	<u>439,571</u>	<u>-</u>	<u>439,571</u>
Total net assets	<u>\$ 2,261,526</u>	<u>\$ (276,195)</u>	<u>\$ 1,985,331</u>

Lake County Regional Office of Education No. 34's net assets increased by \$567,889 (29%) from fiscal year 2010. The increase occurred primarily due to fund restatements. Net assets related to the special revenues funds are considered restricted for educational purposes.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

Changes in Net Assets

The following Analysis shows the changes in net assets for the years ended June 30, 2011 and 2010.

<u>2011</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues			
Charges for services	\$ 300,233	\$ 317,730	\$ 617,963
Operating grants and contributions	5,589,267	-	5,589,267
General revenues			
Local sources	294,246	-	294,246
State sources	122,709	-	122,709
On-behalf payments	<u>1,211,676</u>	<u>-</u>	<u>1,211,676</u>
Total revenues	<u>7,518,131</u>	<u>317,730</u>	<u>7,835,861</u>
Expenses:			
Instructional services			
Salaries and benefits	2,156,198	61,014	2,217,212
Purchased services	1,027,427	149,542	1,176,969
Supplies and materials	173,069	32,282	205,351
Payments to other governments	2,991,387	-	2,991,387
Other objects	38,511	756	39,267
Depreciation	39,261	2,668	41,929
Capital outlay	551	1,040	1,591
Administrative			
On-behalf payments	<u>1,211,676</u>	<u>-</u>	<u>1,211,676</u>
Total expenses	<u>7,638,080</u>	<u>247,302</u>	<u>7,885,382</u>
Change in net assets	(119,949)	70,428	(49,521)
Net assets, beginning of year as restated	<u>2,878,936</u>	<u>(276,195)</u>	<u>2,602,741</u>
Net assets, end of year	<u>\$ 2,758,987</u>	<u>\$ (205,767)</u>	<u>\$ 2,553,220</u>

Operating grants and contributions account for 71% of the total revenue. Lake County Regional Office of Education No. 34's expenses primarily relate to instructional services, which account for 85% of the total expenses.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

<u>2010</u>	<u>Governmental</u> <u>Activities</u>	<u>Business-</u> <u>Type</u> <u>Activities</u>	<u>Total</u>
Revenues:			
Program revenues			
Charges for services	\$ 1,751,252	\$ 373,374	\$ 2,124,626
Operating grants and contributions	4,586,544	-	4,586,544
General revenues			
Local sources	177,930	-	177,930
State sources	219,102	-	219,102
On-behalf payments	1,213,372	-	1,213,372
Interest income	2,609	9	2,618
Total revenues	<u>7,950,809</u>	<u>373,383</u>	<u>8,324,192</u>
Expenses:			
Instructional services			
Salaries and benefits	2,730,901	136,792	2,867,693
Purchased services	1,475,038	197,637	1,672,675
Supplies and materials	109,096	48,933	158,029
Payments to other governments	2,777,778	-	2,777,778
Other objects	64,110	1,429	65,539
Depreciation	34,002	4,007	38,009
Capital outlay	27,337	1,596	28,933
Administrative			
On-behalf payments	<u>1,213,372</u>	<u>-</u>	<u>1,213,372</u>
Total expenses	<u>8,431,634</u>	<u>390,394</u>	<u>8,822,028</u>
Change in net assets	(480,825)	(17,011)	(497,836)
Net assets, beginning of year	<u>2,742,351</u>	<u>(259,184)</u>	<u>2,483,167</u>
Net assets, end of year	<u>\$ 2,261,526</u>	<u>\$ (276,195)</u>	<u>\$ 1,985,331</u>

Operating grants and contributions account for 55% of the total revenue. Lake County Regional Office of Education No. 34's expenses primarily relate to instructional services, which account for 86% of the total expenses.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

Governmental Activities

For fiscal year 2011 and 2010, revenues and expenses for governmental activities decreased by \$432,678, and \$793,554, respectively. The decrease in revenues and expenses was primarily due to reductions in revenues from grants and a corresponding reduction in grant related expenses.

Business-Type Activities

In fiscal year 2011, revenues and expenses for business-type activities decreased by \$55,653, and \$143,092, respectively. The decrease in revenues and expenses was primarily due to decreases in revenues from fee-based services and an increase in salary funding support of a county-based certification officer position.

INDIVIDUAL FUND ANALYSIS

As previously noted, Lake County Regional Office of Education No. 34 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As Lake County Regional Office of Education No. 34 completed the year, its governmental funds reported a combined fund balance of \$2,373,490, above last year's ending fund balance of \$1,886,907.

Governmental Fund Highlights

The General Fund's fund balance increased from \$659,698 in 2010 to \$1,838,053 in 2011. The main reason for the increase is due to fund reclassifications and a net change in fund balance of \$209,706.

The Institute Fund's fund balance decreased from \$439,571 in 2010 to \$432,152 in 2011. The main reason for the decrease is due to reduced revenue from teacher registrations and salary support of certification positions.

The Education Fund's fund balance decreased from \$594,859 in 2010 to \$(47,030) in 2011. The main reason for the decrease is due to fund reclassifications and a net change in fund balance of \$(314,004). The Education Fund is made up of grants that the Regional Office receives and these can vary greatly from year to year as some programs are discontinued while others see a funding increase. Over the various programs that make up the fund, there was a deficit of total revenues over expenditures by \$(288,502) and transfers out of \$25,502, which created a decrease of the fiscal year 2010 fund balance to \$(47,030) in fiscal year 2011.

The Educational Services Division's fund balance increased slightly from \$(31,605) in 2010 to \$(25,667) in 2011.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011

The Nonmajor Special Revenue Funds' fund balance decreased from \$224,384 in 2010 to \$175,982 in 2011. The main reason for the decrease is due to fund reclassifications and a net change in fund balance of \$(17,803).

Proprietary Fund Highlights

Total proprietary fund net assets increased by \$70,428. The increase was a result of increased fees for fingerprinting and bus driver training.

Fiduciary Fund Highlights

The fiduciary fund balance decreased slightly from \$3,022 in fiscal year 2010 to \$1,008 in fiscal year 2011.

BUDGETARY HIGHLIGHTS

Lake County Regional Office of Education No. 34 annually adopts budgets for several funds. The Regional Superintendent annually prepares an Office Operations Budget and submits it to the County Board for their approval. The Office Operations Budget covers a fiscal year which runs from December 1 to November 30. All grant budgets are prepared by Lake County Regional Office of Education No. 34 and submitted to the granting agency for approval. Amendments must be submitted under guidelines established by the granting agency.

CAPITAL ASSETS

Lake County Regional Office of Education No. 34's capital assets include office equipment, computers, audio-visual equipment, and office furniture. The Regional Office maintains an inventory of capital assets which have accumulated over time. For fiscal year 2011, additions amounted to \$17,185 and retirements amounted to \$0. The Depreciation expense for fiscal year 2011 was \$41,929.

ECONOMIC FACTORS BEARING ON LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34'S FUTURE

At the time these financial statements were prepared and audited, Lake County Regional Office of Education No. 34 was aware of several existing circumstances that could significantly affect its financial health in the future:

The potential of reduced or eliminated funding from county, state and/or federal funding sources.

Increased cost of providing services (e.g. labor, facilities, supplies).

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2011**

**CONTACTING LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34'S FINANCIAL
MANAGEMENT**

This financial report is designed to provide Lake County Regional Office of Education No. 34's citizens, taxpayers, clients, and other constituents with a general overview of Lake County Regional Office of Education No. 34's finances and to demonstrate Lake County Regional Office of Education No. 34's accountability for the money it receives. If the reader has questions concerning this report or needs additional financial information, please contact Lake County Regional Office of Education No. 34, 800 Lancer Lane, Grayslake, Illinois 60030.

BASIC FINANCIAL STATEMENTS

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF NET ASSETS
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 965,177	\$ 106,357	\$ 1,071,534
Investments	488,861	-	488,861
Accounts receivable	42,017	-	42,017
Due from other governments	2,079,131	-	2,079,131
Total current assets	3,575,186	106,357	3,681,543
Non-current assets:			
Capital assets, being depreciated, net	103,134	727	103,861
Total assets	3,678,320	107,084	3,785,404
LIABILITIES			
Current liabilities:			
Accounts payable	30,237	-	30,237
Accrued expenses	277,564	2,179	279,743
Accrued compensated absences	63,424	-	63,424
Due to other funds	(310,672)	310,672	-
Due to other governments	566,121	-	566,121
Deferred revenue	150,768	-	150,768
Leases payable	21,874	-	21,874
Total current liabilities	799,316	312,851	1,112,167
Non-current liabilities:			
Leases payable	56,017	-	56,017
Net OPEB obligations	64,000	-	64,000
Total non-current liabilities	120,017	-	120,017
Total liabilities	919,333	312,851	1,232,184
NET ASSETS			
Investment in capital assets, net of related debt	25,243	727	25,970
Unrestricted	1,710,629	(206,494)	1,504,135
Restricted for educational purposes	1,023,115	-	1,023,115
Total net assets	\$ 2,758,987	\$ (205,767)	\$ 2,553,220

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 STATEMENT OF ACTIVITIES
 Year Ended June 30, 2011

EXHIBIT B

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-Type Activities	
Primary government:						
Governmental activities:						
Instructional services:						
Salaries	\$ 1,633,438	\$ 100,095	\$ 1,395,342	\$ (138,001)	\$ -	\$ (138,001)
Employee benefits	522,760	24,430	492,729	(5,601)	-	(5,601)
Purchased services	1,027,427	69,015	872,155	(86,257)	-	(86,257)
Supplies and materials	173,069	14,421	144,370	(14,278)	-	(14,278)
Payments to other governments	2,991,387	81,003	2,648,449	(261,935)	-	(261,935)
Other objects	38,511	10,197	21,058	(7,256)	-	(7,256)
Depreciation	39,261	-	-	(39,261)	-	(39,261)
Capital outlay	551	1,072	15,164	15,685	-	15,685
Administrative:						
On-behalf payments - state	450,312	-	-	(450,312)	-	(450,312)
On-behalf payments - local	761,364	-	-	(761,364)	-	(761,364)
Total governmental activities	<u>7,638,080</u>	<u>300,233</u>	<u>5,589,267</u>	<u>(1,748,580)</u>	<u>-</u>	<u>(1,748,580)</u>
Business-type activities:						
Professional Development	<u>247,302</u>	<u>317,730</u>	<u>-</u>	<u>-</u>	<u>70,428</u>	<u>70,428</u>
Total primary government	<u>\$ 7,885,382</u>	<u>\$ 617,963</u>	<u>\$ 5,589,267</u>	<u>(1,748,580)</u>	<u>70,428</u>	<u>(1,678,152)</u>
General revenues:						
Local sources:						
Intergovernmental				274,451	-	274,451
Fees for services				5,337	-	5,337
On-behalf payments - local				761,364	-	761,364
Interest income				14,458	-	14,458
State sources				122,709	-	122,709
On-behalf payments - state				450,312	-	450,312
Total general revenues				<u>1,628,631</u>	<u>-</u>	<u>1,628,631</u>
CHANGES IN NET ASSETS				(119,949)	70,428	(49,521)
NET ASSETS, BEGINNING OF YEAR AS RESTATED				<u>2,878,936</u>	<u>(276,195)</u>	<u>2,602,741</u>
NET ASSETS, END OF YEAR				<u>\$ 2,758,987</u>	<u>\$ (205,767)</u>	<u>\$ 2,553,220</u>

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	Special Revenue					Total Governmental Funds
	General Fund	Institute Fund	Education Fund	Educational Services Division	Other Nonmajor Funds	
ASSETS						
Cash and cash equivalents	\$ 114,188	\$ 320,243	\$ 340,279	\$ -	\$ 190,467	\$ 965,177
Investments	350,646	111,909	-	-	26,306	488,861
Accounts receivable	767	-	41,250	-	-	42,017
Due from other funds	1,514,141	-	-	-	1,138	1,515,279
Due from other governments	-	-	1,323,089	640,194	115,848	2,079,131
TOTAL ASSETS	\$ 1,979,742	\$ 432,152	\$ 1,704,618	\$ 640,194	\$ 333,759	\$ 5,090,465
LIABILITIES AND FUND BALANCE (DEFICIT)						
LIABILITIES						
Accounts payable	\$ -	\$ -	\$ 30,237	\$ -	\$ -	\$ 30,237
Accrued expenses	80,986	-	170,926	10,529	15,123	277,564
Due to other funds	-	-	768,023	364,474	72,110	1,204,607
Due to other governments	-	-	299,538	217,381	49,202	566,121
Deferred revenue	60,703	-	482,924	73,477	21,342	638,446
Total liabilities	141,689	-	1,751,648	665,861	157,777	2,716,975
FUND BALANCE (DEFICIT)						
Unreserved, reported in:						
Restricted	-	432,152	247,176	-	200,477	879,805
Assigned	75,431	-	-	-	-	75,431
Unassigned	1,762,622	-	(294,206)	(25,667)	(24,495)	1,418,254
Total fund balance (deficit)	1,838,053	432,152	(47,030)	(25,667)	175,982	2,373,490
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	\$ 1,979,742	\$ 432,152	\$ 1,704,618	\$ 640,194	\$ 333,759	\$ 5,090,465

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Total fund balance of governmental funds (page 52) \$ 2,373,490

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. 103,134

Receivables not collected within 60 days of year end are not
available soon enough to pay for the current period's
expenditures and, therefore, are deferred in the funds. 487,678

Capital lease obligations are not due and payable in the current period
and, therefore, are not reported as liabilities in the funds. (77,891)

Compensated absences are not due and payable in the current period
and, therefore, are not reported as liabilities in the funds. (63,424)

OPEB obligation resulting from annual required contributions in excess
of actual contributions are not due and payable in the current period
and, therefore, are not reported in the funds. (64,000)

Net assets of governmental activities (page 50) \$ 2,758,987

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	Special Revenue					Total Governmental Funds
	General Fund	Institute Fund	Education Fund	Educational Services Division	Other Nonmajor Funds	
REVENUES:						
Federal sources	\$ 93,714	\$ -	\$ 147,736	\$ 1,929,997	\$ -	\$ 2,171,447
State sources	1,720,382	-	1,726,096	-	144,975	3,591,453
Local sources:						
Intergovernmental	167,389	-	-	-	107,062	274,451
Fees for services	-	148,569	-	-	150,191	298,760
Interest income	1,028	1,276	275	-	11,879	14,458
On-behalf payments	1,211,676	-	-	-	-	1,211,676
Total revenues	<u>3,194,189</u>	<u>149,845</u>	<u>1,874,107</u>	<u>1,929,997</u>	<u>414,107</u>	<u>7,562,245</u>
EXPENDITURES:						
Instructional services:						
Salaries	189,003	28,236	529,121	688,947	198,131	1,633,438
Employee benefits	70,920	13,095	217,435	233,186	31,254	565,890
Purchased services	57,161	18,362	284,866	527,377	139,661	1,027,427
Supplies and materials	11,323	329	101,260	21,303	38,854	173,069
Payments to other governments	1,426,209	72,815	1,016,540	453,246	22,577	2,991,387
Other objects	8,053	2,959	2,369	-	19,957	33,338
On-behalf payments	1,211,676	-	-	-	-	1,211,676
Capital outlay	4,586	468	11,018	-	1,664	17,736
Total expenditures	<u>2,978,931</u>	<u>136,264</u>	<u>2,162,609</u>	<u>1,924,059</u>	<u>452,098</u>	<u>7,653,961</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>215,258</u>	<u>13,581</u>	<u>(288,502)</u>	<u>5,938</u>	<u>(37,991)</u>	<u>(91,716)</u>
OTHER FINANCING SOURCES (USES)						
Transfer in	1,691	-	-	-	21,000	22,691
Transfer out	(879)	(21,000)	-	-	(812)	(22,691)
Repayment of long-term lease payable	(5,270)	-	(21,423)	-	-	(26,693)
Interest expense	(1,094)	-	(4,079)	-	-	(5,173)
Total other financing sources (uses)	<u>(5,552)</u>	<u>(21,000)</u>	<u>(25,502)</u>	<u>--</u>	<u>20,188</u>	<u>(31,866)</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>209,706</u>	<u>(7,419)</u>	<u>(314,004)</u>	<u>5,938</u>	<u>(17,803)</u>	<u>(123,582)</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	<u>1,628,347</u>	<u>439,571</u>	<u>266,974</u>	<u>(31,605)</u>	<u>193,785</u>	<u>2,497,072</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 1,838,053</u>	<u>\$ 432,152</u>	<u>\$ (47,030)</u>	<u>\$ (25,667)</u>	<u>\$ 175,982</u>	<u>\$ 2,373,490</u>

The accompanying notes are an integral part of the financial statements.

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

Net change in fund balance (page 54) \$ (123,582)

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	\$ 17,185	
Depreciation	<u>(39,261)</u>	(22,076)

Some receivables will not be collected for several months
after fiscal year end, so they are not considered as
"available" revenues in the governmental funds, and
they are instead counted as deferred revenues. They
are, however, recorded as revenues in the Statement
of Activities.

Fiscal year 2010 deferred revenue recognized in fiscal year 2011	(531,792)	
Fiscal year 2011 deferred revenue	<u>487,678</u>	(44,114)

Repayment of long-term capital lease obligation is reported as an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		26,693
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Some expenses in the Statement of Activities do not require
the use of current financial resources and therefore, are not
reported as expenditures in governmental funds. These
activities consist of:

Decrease in compensated absences		75,130
Increase in OPEB expense		<u>(32,000)</u>

Change in net assets of governmental activities (page 51) \$ (119,949)

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Total</u>
	<u>Education Services Division</u>	<u>Nonmajor Enterprise Funds</u>	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ -	\$ 106,357	\$ 106,357
Non-current assets:			
Capital assets, being depreciated, net	<u>-</u>	<u>727</u>	<u>727</u>
Total assets	<u>-</u>	<u>107,084</u>	<u>107,084</u>
LIABILITIES			
Current liabilities:			
Accrued expenses	2,179	-	2,179
Due to other funds	<u>310,672</u>	<u>-</u>	<u>310,672</u>
Total liabilities	<u>312,851</u>	<u>-</u>	<u>312,851</u>
NET ASSETS			
Investment in capital assets, net of related debt	-	727	727
Unrestricted	<u>(312,851)</u>	<u>106,357</u>	<u>(206,494)</u>
Total net assets	<u>\$ (312,851)</u>	<u>\$ 107,084</u>	<u>\$ (205,767)</u>

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Total</u>
	<u>Education Services Division</u>	<u>Nonmajor Enterprise Funds</u>	
OPERATING REVENUES:			
Fees for services	\$ 272,612	\$ 45,118	\$ 317,730
OPERATING EXPENSES:			
Salaries	42,227	-	42,227
Employee benefits	18,787	-	18,787
Purchased services	129,437	20,105	149,542
Supplies and materials	30,253	2,029	32,282
Other objects	432	324	756
Capital outlay	595	445	1,040
Depreciation	-	2,668	2,668
Total operating expenses	<u>221,731</u>	<u>25,571</u>	<u>247,302</u>
OPERATING INCOME	50,881	19,547	70,428
NET ASSETS, BEGINNING OF YEAR	<u>(363,732)</u>	<u>87,537</u>	<u>(276,195)</u>
NET ASSETS, END OF YEAR	<u>\$ (312,851)</u>	<u>\$ 107,084</u>	<u>\$ (205,767)</u>

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		<u>Total</u>
	<u>Education Services Division</u>	<u>Nonmajor Enterprise Funds</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from workshops and services	\$ 266,796	\$ 45,118	\$ 311,914
Payments to suppliers and providers of goods and services	(676,484)	(21,787)	(698,271)
Payments to employees	(62,821)	-	(62,821)
Net cash provided by (used in) operating activities	<u>(472,509)</u>	<u>23,331</u>	<u>(449,178)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Interfund loans	310,672	-	310,672
Net cash provided by noncapital financing activities	<u>310,672</u>	<u>-</u>	<u>310,672</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(161,837)	23,331	(138,506)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>161,837</u>	<u>83,026</u>	<u>244,863</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ -</u>	<u>\$ 106,357</u>	<u>\$ 106,357</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:			
Operating income	\$ 50,881	\$ 19,547	\$ 70,428
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:			
Depreciation expense	-	2,668	2,668
Change in assets and liabilities:			
Accounts receivable	3,249	-	3,249
Due from other governments	210	1,116	1,326
Accounts payable and accrued expenses	(509,131)	-	(509,131)
Accrued compensated absences	(1,807)	-	(1,807)
Due to other governments	(6,636)	-	(6,636)
Deferred revenue	(9,275)	-	(9,275)
Net cash provided by (used in) operating activities	<u>\$ (472,509)</u>	<u>\$ 23,331</u>	<u>\$ (449,178)</u>

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>1,008</u>
LIABILITIES	
Due to other governments	\$ <u>1,008</u>

The accompanying notes are an integral part of the financial statements.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

The Regional Superintendent's responsibilities for administering the school educational service region programs include, but are not limited to, providing directions to teachers and school officials on science, art and teaching methods; implementing the State Board of Education's Policy Programs; encouraging camaraderie among teachers through the teachers' institute; making public notice of unfilled teaching positions within the region; and ensuring of the safety, health, and welfare of the students in the region by periodically inspecting the school buildings and ensuring that the bus drivers have valid driving licenses and are properly trained to operate the school buses.

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

Criteria Used to Determine the Scope of the Entity

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

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended Component Units

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

On August 8, 1995, Lake County Regional Office of Education No. 34 assumed, pursuant to State law, the authority and responsibility of Educational Services Center No. 2 (ESC No. 2) of Lake County. The former ESC No. 2 is now the Educational Services Division of Lake County Regional Office of Education No. 34 located in its Grayslake office. The Lake County Regional Office of Education No. 34's Regional Superintendent of Schools is the administrative and fiscal agent for the Educational Services Division.

The Educational Services Division is responsible, under the School Code, for providing a variety of in-service training and staff development opportunities to improve the knowledge and skills of educators, and for serving as the primary regional delivery system for State and federal grant supported programs and services in education.

Lake County Regional Office of Education No. 34 administers the Positive Alternative Services for Students program (PASS) from its Grayslake office. The Lake County Regional Office of Education No. 34's Regional Superintendent of Schools is the administrative and fiscal agent for Project PASS. PASS, also known as the Lake County Center for Dropout Prevention, was established in 1985 to provide educational services to chronic truants and potential dropouts.

The primary goals of Project PASS are to reduce student truancy and to prevent students from dropping out of school. It provides counseling, tutoring, mentoring, attendance incentives and a variety of enrichment activities that draw on community resources. It also provides teacher technical support services that give emphasis to creative and instructional strategies to make learning more interesting and engaging.

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

Lake County Regional Office of Education No. 34 provides administrative support for the Regional Board of School Trustees from its Grayslake office. The Lake County Regional Office of Education No. 34's Regional Superintendent of Schools serves as Ex-Officio Secretary of the Board.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The ROE Alternative Program of Lake County is administered by the Lake County Regional Superintendent per the School Code of Illinois 5/13A-6. This is cited as the Safe Schools Law.

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

Basis of Presentation

Government-wide Financial Statements - The government-wide financial statements (i.e. Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The statements distinguish between those activities of the Regional Office of Education that are governmental in nature and those that are considered business-type activities. *Governmental activities* normally are supported by operating grants and contributions, charges for services and intergovernmental revenues. *Business-type activities* normally are supported by amounts assessed or received from local sources for the Regional Office of Education programs.

The Statement of Net Assets presents Lake County Regional Office of Education No. 34's nonfiduciary assets and liabilities with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation and reduced by outstanding balances of borrowing used to finance the purchase of those assets.

Restricted net assets represent resources in which the Regional Office of Education is legally obligated to spend in accordance with restrictions imposed by enabling legislation.

Unrestricted net assets represent resources used for transactions relating to the general operations of the Regional Office of Education and may be used at the discretion of management to meet expenses for any purpose.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues received more than 60 days after the end of the current period are deferred in the governmental fund financial statements but are recognized as current revenues in the government-wide financial statements.

Intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Lake County Regional Office of Education No. 34.

Lake County Regional Office of Education No. 34 records on-behalf payments made by the State to the Teachers' Retirement System as revenue and expenditures.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Capital asset acquisitions are reported as expenditures in governmental funds.

Under the terms of grant agreements, Lake County Regional Office of Education No. 34 funds certain programs by a combination of specific cost-reimbursement grant resources to such programs, and then general revenues. It is the Regional Office of Education No. 34's policy to first apply restricted funds, then unrestricted. For unrestricted funds, committed funds are used first, then assigned funds, then unassigned if any.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from non-operating 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 Lake County Regional Office of Education No. 34's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Lake County Regional Office of Education No. 34 maintains its financial records on the cash basis. The financial statements of Lake County Regional Office of Education No. 34 are prepared by making memorandum adjusting entries to the cash basis financial records.

Fund Accounting

The accounts of Lake County Regional Office of Education No. 34 are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Lake County Regional Office of Education No. 34 maintains individual funds as required by the State of Illinois. The resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are summarized by type in the basic financial statements. The following summarizes the fund types used:

Governmental Fund Types

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

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

General State Aid - Used to account for grant monies received for, and payment of, expenditures for regional learning academy supplements.

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Education Fund - Used to account for the State and federal grants and contracts administered by the Regional Office of Education. The education funds are as follows:

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

Regional Safe Schools - This fund is an alternative schooling program for disruptive youth, creating alternative placement for those students who are suspended and/or are deemed ineligible.

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

McKinney Education for Homeless Children - Used to account for grant monies received for, and payment of, expenditures associated with a federal program designed to provide counseling and educational support to homeless children and their families. The programs are funded by a federal Stewart B. McKinney Education for Homeless Children and Youth grant administered through the Illinois State Board of Education.

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Nonmajor Special Revenue Funds - The Regional Office of Education reported the following special revenue funds as nonmajor governmental funds:

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

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Fund Types

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

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

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

Fingerprinting Assessment - Used to account for the assessments received from the school districts to pay for the processing of fingerprinting the substitute teachers and expenditures incurred for providing this service to the school districts.

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held in a trustee capacity or as an agent for individuals or private or governmental organizations. The Fiduciary Funds include:

Agency - Used to account for funds received from Illinois State Board of Education and disbursed as a result of the Regional 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, federal grants, and various other sources.

Assets, Liabilities, and Fund Equity

The following accounting policies are followed in preparing the balance sheet:

Cash and investments - The cash and investment balances of Lake County Regional Office of Education No. 34 are valued at cost.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

State regulations required that the Lake County Regional Office of Education No. 34 deposit funds under its control into accounts insured by the federal government, secured by substantial collateral or into pooled investment trusts. All funds not needed for immediate disbursements are maintained in interest bearing accounts. Statutes authorize Lake County Regional Office of Education No. 34 to make deposits or invest in obligation of states and their political subdivisions, saving 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.

Due from other governments - Due from other governments represents amounts due from the Illinois State Board of Education, other agencies, and districts.

Capital assets - Capital assets result from expenditures in the governmental and proprietary funds. These assets are reported in the governmental and business-type activities column of the government-wide Statement of Net Assets but are not reported in the fund financial statements in the governmental funds. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Lake County Regional Office of Education No. 34 capitalizes items costing \$5,000 or more. Depreciation is calculated on a straight-line basis over the estimated useful lives (five to seven years) of the respective assets.

Lake County Regional Office of Education No. 34 reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Deferred revenues - Lake County Regional Office of Education No. 34 reports unearned and deferred revenue in the governmental fund balance sheet. Deferred and unearned revenue arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance is the difference between assets and liabilities in a Governmental Fund. The following types of fund balances may be presented in the Governmental Funds Balance Sheet and Governmental Funds Combining Schedule of Accounts:

Nonspendable Fund Balance - the portion of a Governmental Fund's net assets that are not available to be spent, either short term or long term, in either form or through legal restrictions. There are no accounts presenting a nonspendable fund balance.

Restricted Fund Balance - the portion of a Governmental Fund's net assets that are subject to external enforceable legal restrictions. The following fund balance accounts are restricted by grant agreements or contracts: Title I - Reading First - Part B, Juvenile Detention Fund, Regional Board of Trustees, Reading Recovery Installation Fees, Distributive Interest, PASS (Positive Alternative Student Services), and National Dropout Prevention Conference. The following funds are restricted by Illinois Statute: General Education Development, Bus Driver Training, Supervisory, and Institute.

Committed Fund Balance - the portion of a Governmental Fund's net assets with self-imposed constraints or limitations that have been placed at the highest level of decision making. There are no accounts presenting a committed fund balance.

Assigned Fund Balance - the portion of a Governmental Fund's net assets to denote an intended use of resources. The accounts presented with assigned fund balances are specified for a particular purpose by the Regional Superintendent. A portion of the General State Aid fund balance and the PASS (Positive Alternative Student Services) represents assigned fund balance.

Unassigned Fund Balance - available expendable financial resources in a governmental fund that are not designated for a specific purpose. The unassigned balance is made up of the Educational Services Division, a portion of General State Aid, Educational Services Division Local Operations, Regional Safe Schools, Truants Alternative Optional Education, Teacher Mentoring Program, Principal Mentoring Program, ROE/ISC Operations, Reading Recovery Operations, and Learning Technology Center.

Net assets present the difference between assets and liabilities in the Statement of Net Assets. Net Assets of the Regional Office of Education are classified as follows:

Invested in Capital Assets - represents the Regional Office of Education's total investment in capital assets.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Net Assets - represents net assets that are restricted due to constraints placed on the net asset use that are either externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - represents resources used for transactions relating to the general operations of the Regional Office of Education and may be used at the discretion of management to meet expenses for any purpose.

Revenue

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

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.

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

Illinois State Board of Education funds received by the Regional Office of Education for the Distributive Fund accrue interest for the period of time between the receipt of funds and clearance of checks to recipients. Interest is distributed among the funds of the Regional Office of Education.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Data

The Lake County Regional Office of Education No. 34 did not formally adopt a budget for the year ended June 30, 2012 and is not legally required to do so. The Illinois State Board of Education and other federal grantors require budgets for certain State and Federal programs.

These budgets were used to prepare Budgetary Comparison Schedules for the following programs:

Special Revenue Funds

- Education Fund
 - Title I - Reading First Part B SEA Funds
 - Regional Safe Schools
 - Truants Alternative/Optional Education
 - McKinney Education for Homeless Children
 - Teacher Mentoring Program
 - ROE/ISC Operations
- Nonmajor Special Revenue Funds
 - Learning Technology Center

Management Estimates

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

Subsequent Events

Management has evaluated subsequent events through June 18, 2012, the date the financial statements were available to be issued.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND CASH EQUIVALENTS

The deposit of Lake County Regional Office of Education No. 34 monies is governed by the provisions of the Illinois Compiled Statutes.

Deposits

Lake County Regional Office of Education No. 34 utilizes several different bank accounts for its various activities. The book balance of such accounts is \$1,072,542 at June 30, 2011, while the bank balance was \$1,435,015. The difference between the above amounts primarily represents checks that have been issued but have not yet cleared the bank as of June 30, 2011. Of the total bank balance as of June 30, 2011, the entire amount was secured by federal depository insurance or collateral held by the pledging institution in the name of the Regional Office of Education.

Investments

Lake County Regional Office of Education No. 34's established investment policy follows the State of Illinois Public Funds Investment Act which authorizes the Regional Office of Education to purchase certain obligations of the U.S. Treasury, federal agencies, and instrumentalities; certificates of deposit and time deposits covered by Federal depository insurance; commercial paper of U.S. corporations with assets exceeding \$500,000,000, if such paper is rated at the highest classification established by at least two standard rating services; money market funds and the Illinois Funds.

As of June 30, 2011, the Regional Office of Education had investments with a carrying value of \$488,861 invested in certificates of deposits. Additionally, the Regional Office of Education has \$20,886 invested in Illinois Funds money market.

Credit Risk

At June 30, 2011, the Illinois Funds Money Market Fund had a Standards and Poor's AAAM rating. The pool is audited annually by an outside independent auditor and copies of the report are distributed to participants. Although not subject to direct regulatory oversight, the fund is administered by the Illinois State Treasurer in accordance with the provisions of the Illinois Public Funds Investments Act 30, ILCS 235. All investments are fully collateralized.

Interest Rate Risk

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2 - CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of the failure of a financial institution, Lake County Regional Office of Education No. 34 will not be able to recover its investments or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2011, the Regional Office of Education's investments are fully collateralized.

Concentration of Credit Risk

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

A reconciliation of cash as shown on the Statement of Net Assets for the primary government is as follows:

	<u>Carrying Amount</u>
Cash - Primary Government	\$ 1,071,534
Cash - Agency	<u>1,008</u>
Total	<u>\$ 1,072,542</u>

NOTE 3 - CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2011 is as follows:

	<u>Balance June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Governmental Funds:				
Furniture and equipment	\$ 329,903	\$ 17,185	\$ -	\$ 347,088
Less accumulated depreciation	<u>(204,693)</u>	<u>(39,261)</u>	<u>-</u>	<u>(243,954)</u>
Total capital assets, net	<u>\$ 125,210</u>	<u>\$ (22,076)</u>	<u>\$ -</u>	<u>\$ 103,134</u>
Proprietary Funds:				
Furniture and equipment	\$ 28,820	\$ -	\$ -	\$ 28,820
Leasehold improvement	11,892	-	-	11,892
Less accumulated depreciation	<u>(37,317)</u>	<u>(2,668)</u>	<u>-</u>	<u>(39,985)</u>
Total capital assets, net	<u>\$ 3,395</u>	<u>\$ (2,668)</u>	<u>\$ -</u>	<u>\$ 727</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged as follows:

Governmental Funds:	
Depreciation	\$ 39,261
Proprietary Funds:	
Depreciation	2,668
Total depreciation	<u>\$ 41,929</u>

NOTE 4 - CAPITAL AND OPERATING LEASES

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

The future minimum lease obligations and the net present value of these lease payments as of June 30, 2011 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 25,362
2013	28,545
2014	24,918
2015	<u>6,505</u>
Total minimum lease payments	85,330
Less: amount representing interest	<u>7,439</u>
Present value of minimum lease payments	<u>\$ 77,891</u>

Lake County Regional Office of Education No. 34 is also committed under lease agreements for a building facility for its Safe Schools program located in Zion, IL, and classroom space for its Educational Services Division operations located in Grayslake, IL. The lease for the Safe Schools program requires a monthly lease payment of \$11,127 with an option for annual renewal. Total lease expense for this facility for the year ended June 30, 2011 was \$133,524.

The lease agreement for the Educational Services Division is for a period of five years beginning September 1, 2006 until August 30, 2011, with an option to renew for an additional five year period ending August 30, 2016. The lease also provides for annual increases in future rental payments based on the Consumer Price Index. The lease requires a quarterly lease payment of \$11,877 with an option for annual renewal. Rental expense for the year ended June 30, 2011, was \$47,508.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5 - EMPLOYEE BENEFIT PLAN

Employees of Lake County Regional Office of Education No. 34 are paid by, and considered employees of, county government. As such, related retirement obligations associated with these employees are the responsibility of county government.

NOTE 6 - ON-BEHALF PAYMENTS

The salaries and fringe benefits of the Regional Superintendent and the Assistant Regional Superintendent are paid by the State of Illinois. A significant portion of the operating expenditures of Lake County Regional Office of Education No. 34 are paid by Lake County, Illinois, in accordance with the statutes.

The breakdown of State and County on-behalf payments for the year ended June 30, 2011 is as follows:

Regional Superintendent - salary	\$ 100,762
Regional Superintendent - benefits (includes state paid insurance)	19,805
Assistant Regional Superintendent - salary	90,686
Assistant Regional Superintendent - benefits (includes state paid insurance)	19,335
TRS on-behalf payments	213,282
THIS on-behalf payments	6,440
Salaries of office workers paid by the Lake County	580,555
Lake County's share in health insurance contributions	32,289
Lake County's share in retirement contributions	47,196
Other administrative expenses	<u>101,326</u>
Total on-behalf payments	<u>\$ 1,211,676</u>

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

NOTE 7 - RETIREMENT PLANS

Teachers' Retirement System of the State of Illinois

The Lake County Regional Office of Education No. 34 participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - RETIREMENT PLANS (CONTINUED)

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

TRS members include all active 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, 2011, was 9.4 percent of creditable earnings. The same contribution rate applies to members whose first contributing service is on or after January 1, 2011, the effective date of the benefit changes contained in Public Act 96-0889. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. The active member contribution rate was also 9.4 percent for the years ended June 30, 2010 and 2009.

The State of Illinois makes contributions directly to TRS on behalf of the Lake County Regional Office of Education No. 34's TRS-covered employees.

- **On-behalf Contributions.** The State of Illinois makes employer pension contributions on behalf of the Lake County Regional Office of Education No. 34. For the year ended June 30, 2011, State of Illinois contributions were based on 23.10 percent of creditable earnings not paid from federal funds and the Lake County Regional Office of Education No. 34 recognized revenue and expenditures of \$213,282 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2010 and June 30, 2009 the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 23.38 percent (\$221,191) and 17.08 percent (\$72,297), respectively.

Lake County Regional Office of Education No. 34 makes other types of employer contributions directly to TRS.

- **2.2 Formula Contributions.** Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. This rate is specified by statute. Contributions for the year ended June 30, 2011 were \$4,245. Contributions for the years ending June 30, 2010 and June 30, 2009 were \$4,377 and \$4,461, respectively.
- **Federal and Special Trust Fund Contributions.** When TRS members are paid from federal and special trust funds administered by the Lake County Regional Office of Education No. 34, there is a statutory requirement for the Lake County Regional Office of Education No. 34 to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective for the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and special trust funds will be the same as the state contribution rate for TRS.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - RETIREMENT PLANS (CONTINUED)

For the year ended June 30, 2011, the employer pension contribution was 23.10 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2010 and 2009, the employer contribution was 23.38 and 17.08 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2011, salaries totaling \$474,079 were paid for federal and special trust funds that required employer contributions of \$109,512. For the years ended June 30, 2010 and June 30, 2009, the Regional Office of Education paid \$83,141 and \$59,455, respectively.

- **Early Retirement Option.** The Lake County Regional Office of Education No. 34 is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member. The maximum employer ERO contribution is 117.5 percent and applies when the member is age 55 at retirement.

For the years ended June 30, 2011, June 30, 2010 and June 30, 2009, the Lake County Regional Office Education No. 34 paid no ERO contributions.

- **Salary increases over 6 percent and excess sick leave**
 - If an employer grants salary increases over 6 percent and those salaries are used to calculate a retiree's final average salary, the employer makes a contribution to TRS. The contribution will cover the difference in actuarial cost of the benefit based on actual salary increases and the benefit based on salary increases of up to 6 percent.

For the years ended June 30, 2011, June 30, 2010, and June 30, 2009, the Lake County Regional Office of Education No. 34 did not make any contributions to TRS for salary increases in excess of 6 percent.

- If an employer grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the employer makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary used to calculate final average salary, and the TRS total normal cost rate (18.03 percent of salary during the year ended June 30, 2011, as recertified pursuant to Public Act 96-1511). For the years ended June 30, 2011, June 30, 2010, and June 30, 2009, the Lake County Regional Office of Education No. 34 did not make any contributions to TRS for sick leave days granted in excess of the normal annual allotment.

TRS financial information, an explanation of TRS benefits, and descriptions of member, employer and state funding requirements can be found in the TRS Comprehensive Annual Financial Report for the year ended June 30, 2010. The report for the year ended June 30, 2011, is expected to be available in late 2011.

The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, 2815 West Washington Street, P.O. Box 19253, Springfield, IL 62794-9253. The most current report is also available on the TRS Web site at <http://trs.illinois.gov>.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 - RETIREMENT PLANS (CONTINUED)

Illinois Municipal Retirement Fund

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

Retirement Fund

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

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

Lake County Regional Office of Education No. 34 implemented GASB Statement No. 45 in fiscal year 2010.

Retiree Medical Benefit Subsidy

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

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

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Membership. At June 30, 2011, membership consisted of thirty-two active participants and one retired participant.

Funding Policy. GASB Statement No. 45 requires recognition of the current expense of OPEB based on each governing body's annual required contribution, but does not require funding of the related liability. As of June 30, 2011, Lake County Regional Office of Education has chosen not to fund the liability.

Annual OPEB Cost and Net OPEB Obligation. Lake County Regional Office of Education No. 34's annual OPEB cost is calculated based on the annual required contribution. The annual required contribution represents the normal cost each year and an amount to amortize the unfunded liability over a period of thirty years.

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

Components of Net OPEB Obligation and Expense

<u>Item</u>	<u>Amount as of June 30, 2011</u>
Annual Required Contribution	\$ 32,000
Contributions Made	-
Increase in net OPEB obligation	<u>32,000</u>
Net OPEB obligation - beginning of year	<u>32,000</u>
Net OPEB obligation - end of year	<u>\$ 64,000</u>

Schedule of Contributions, OPEB Costs and Net Obligations

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/10	\$ 32,000	0%	\$ 32,000
06/30/11	32,000	0%	64,000

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress. As of June 30, 2011, the actuarial accrued liability for benefits was \$271,000. The covered payroll was approximately \$1,285,600 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 21.1%.

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

In the actuarial valuation for the fiscal year ended June 30, 2011, the entry age normal cost method was used. The actuarial assumptions included an annual healthcare cost trend rate of 9.0% initially, reduced to an ultimate rate of 5.0% after eight years. The Unfunded Accrued Actuarial Liability is being amortized as a level percentage of pay over thirty years. A discount (interest) rate of 4.0% was used as well as a salary progression rate of 3.0% per year.

Schedule of Funded Status and Funding Progress

Actuarial Accrued Liability (AAL)	\$271,000
Actuarial Value of Assets	-
Unfunded Actuarial Accrued Liability (AAL)	\$271,000
Funded Ratio	0%
Covered Payroll (Active Plan Members)	\$1,285,600
UAAL as a % of Covered Payroll	21.1%

Teachers Health Insurance Security Fund

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

The State Employees Group Insurance Act of 1971 (5 ILCS 375) outlines the benefit provisions of THIS Fund and amendments to the plan can be made only by legislative action with the Governor's approval. The Illinois Department of Healthcare and Family Services (HFS) and the Illinois Department of Central Management Services (CMS) administer the plan with the cooperation of TRS. The director of HFS determines the rates and premiums for annuitants and dependent beneficiaries and establishes the cost-sharing parameters. Section 6.6 of the State Employees Group Insurance Act of 1971 requires all active contributors to the TRS who are not employees of the state make a contribution to THIS Fund.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

- **On-behalf Contributions to THIS Fund.** The State of Illinois makes employer retiree health insurance contributions on behalf of the Lake County Regional Office of Education No. 34. State contributions are intended to match contributions to THIS Fund from active members which were 0.88 percent of pay during the year ended June 30, 2011. State of Illinois contributions were \$6,440, and the Lake County Regional Office of Education No. 34 recognized revenue and expenditures of this amount during the year. State contributions intended to match active member contributions during the year ended June 30, 2010 was .84 percent of pay. State contributions on behalf of the Regional Office of Education No. 34 employees were \$7,947. Had the Regional Office of Education No. 34 recognized revenue and expenditures for State Contributions intended to match active member contributions during the year ended June 30, 2009, under the current standards, the contribution match would have been 0.84 percent of pay or \$5,164.
- **Employer Contributions to THIS Fund.** The Lake County Regional Office of Education No. 34 also makes contributions to THIS Fund. The employer THIS fund contribution was 0.66 percent during the year ended June 30, 2011, and 0.63 percent during the years ended June 30, 2010, and June 30, 2009. For the year ended June 30, 2011, the Lake County Regional Office of Education No. 34 paid \$4,830 to the THIS Fund. For the years ended June 30, 2010 and June 30, 2009, the Lake County Regional Office of Education No. 34 paid \$4,754 and \$2,667 to the THIS Fund, respectively, which was 100 percent of the required contribution.

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - COMPENSATED ABSENCES

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

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

Upon the termination of an employee eligible to use general leave, all accumulated leave credit will be paid as of the date of termination up to a maximum of 330 hours. Effective July 1, 2010 the Regional Office of Education amended their policy for general leave accrual and carryover as it applies to grant-funded employees. Any grant-funded employees hired after the effective date will be allowed to accrue general leave according to county policy during the Regional Office of Education's fiscal year. These hours must be used by August 31 following that fiscal year. Any unused general leave not used by August 31 following a fiscal year will be lost and not paid out upon subsequent termination. Any grant-funded employees hired before the effective date will not lose their carryover balance as of June 30, 2010 to a maximum of 330 hours. However, at August 31 following a Regional Office's fiscal year the grant-funded employees' carryover balance cannot exceed their carryover balance as of the beginning of the fiscal year. Any unused general leave earned during a fiscal year starting July 1, 2010 not used by August 31 following that fiscal year end will be lost and not paid out upon subsequent termination. Employees will not be able to carryover additional general leave that they earned starting on July 1, 2010; the only carryover allowed is their balance as of June 30, 2010 that has not been used subsequent to that date. The allowed carryover will be paid as of the date of termination.

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

Eligible employees with at least 30 unused sick leave days in their sick bank may elect to receive cash reimbursement for sick leave days that they accrued during the current fiscal year, less any sick leave days taken that year, at 50% value. This reimbursement option is only offered to employees once a year, usually at the end of the fiscal year. Lake County Regional Office of Education No. 34 records accrued sick leave for amounts payable to employees who elected to be paid for sick days that accumulated during the current year. Accrued sick leave reimbursement amounted to \$0 as of June 30, 2011 and June 30, 2010, respectively. Lake County Regional Office of Education No. 34 suspended the sick leave day reimbursement option in fiscal year 2010 as part of its cost saving programs.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 - COMPENSATED ABSENCES (CONTINUED)

Compensated absences activity as of June 30, 2011, is as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>
Compensated Absences	\$140,361	\$68,936	\$145,873	\$63,424

NOTE 10 - DISPOSITION OF DISTRIBUTIVE FUND INTEREST

Illinois State Board of Education funds received by the Regional Office of Education for the Distributive Fund accrue interest for the period of time between the receipt of funds and clearance of checks to recipients. Interest is distributed among Lake County Regional Office of Education No. 34 and the individual school districts based on a written agreement.

NOTE 11 - DUE FROM/TO OTHER GOVERNMENTS

The Lake County Regional Office of Education No. 34 has funds due from/to various other governmental units which consist of the following:

Due From Other Governments:

<u>Education Fund</u>	
Illinois State Board of Education	\$ 852,786
Other local governments	470,303
<u>Educational Services Division</u>	
Other local governments	640,194
<u>Other Nonmajor Funds</u>	
Illinois State Board of Education	43,596
Other local governments	<u>72,252</u>
Total	<u>\$2,079,131</u>

Due To Other Governments:

<u>Education Fund</u>	
Other local governments	\$ 299,538
<u>Educational Services Division</u>	
Other local governments	217,381
<u>Other Nonmajor Funds</u>	
Other local governments	<u>49,202</u>
Total	<u>\$ 566,121</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 - DUE FROM/TO FUNDS

Interfund receivables and payables, primarily made to cover cash deficits within pooled cash accounts, at June 30, 2011 were:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund		
General State Aid	\$ 659,973	\$ -
Educational Services Division Local Operations	779,687	-
PASS	74,481	-
Education Fund		
Regional Safe Schools	-	577,923
Truants Alternative Optional Education	-	85,559
Teacher Mentoring Program	-	8,216
ROE/ISC Operations	-	96,325
Educational Services Division	-	364,474
Nonmajor Funds		
Reading Recovery Installation	1,138	-
Reading Recovery Operations	-	1,138
Learning Technology Center	-	44,387
Preschool Monitoring	-	26,585
Proprietary Funds		
Education Services Division	-	310,672
Total	<u>\$ 1,515,279</u>	<u>\$ 1,515,279</u>

NOTE 13 - TRANSFERS

Transfers are generally made to provide supplemental funding or move resources from the fund required to collect the resources to the fund required to expend the resources. The following is the detail of interfund transfers as of June 30, 2011:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund		
PASS (Positive Alternative Student Services)	\$ 1,691	\$ 879
Institute Fund	-	21,000
Nonmajor Special Revenue Fund		
Reading Recovery Operations	21,000	-
PASS (Positive Alternative Student Services)	-	812
Total	<u>\$ 22,691</u>	<u>\$ 22,691</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 14 - DEFICIT FUND BALANCES

The following funds had deficit fund balances/net assets at June 30, 2011:

Education Fund	
Regional Safe Schools	\$ (217,557)
Truants Alternative/Optional Education	(29,443)
Teacher Mentoring Program	(242)
Principal Mentoring Program	(9,138)
ROE/ISC Operations	(37,826)
Educational Services Division	(25,667)
Nonmajor Special Revenue Fund	
Reading Recovery Operations	(9,172)
Learning Technology Center	(15,323)
Proprietary Funds	
Education Services Division	(312,851)

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

NOTE 15 - FUND RECLASSIFICATIONS

The Lake County Regional Office of Education No. 34 has reclassified funds within the governmental fund statements to more appropriately reflect the purpose of those funds. The impact of the fund reclassifications is an increase in the General Fund fund balance of \$544,838, and a decrease in the Education Fund fund balance of \$544,838. These reclassifications have no effect on the net change in fund balances or net assets.

NOTE 16 - RESTATEMENT OF BEGINNING FUND BALANCE

The Regional Office of Education No. 34 restated the following fund balances previously reported:

	Education Fund Teacher Mentoring Program	Special Revenue Fund Learning Technology Center
Fund balance, June 30, 2010 as previously reported	\$ -	\$ -
Revenues recorded in excess	<u>(25,527)</u>	<u>(30,599)</u>
Fund balance, July 1, 2010 as restated	<u>\$ (25,527)</u>	<u>\$ (30,599)</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 16 - RESTATEMENT OF BEGINNING FUND BALANCE (CONTINUED)

	General Fund General State Aid	Education Fund Regional Safe Schools
Fund balance, June 30, 2010 as previously reported	\$ 472,349	\$ (270,170)
Transfer recorded in excess	423,811	-
Liabilities recorded in excess	<u>-</u>	<u>242,480</u>
Fund balance, July 1, 2010 as restated	<u>\$ 896,160</u>	<u>\$ (27,690)</u>
		Governmental Activities
Net assets, June 30, 2010, as previously reported		\$ 2,261,526
Revenues recorded in excess		(56,126)
Transfer recorded in excess		423,811
Liabilities recorded in excess		<u>249,725</u>
Net assets, July 1, 2010, as restated		<u>\$ 2,878,936</u>

The restatements of the Teacher & Administrators Mentoring Program fund balance and Learning Technology Center fund balance were to remove revenues that were not earned until fiscal year 2011.

The restatement of the General State Aid fund balance was to remove a transfer in and record an interfund loan receivable.

The restatement of the Regional Safe Schools fund balance was to remove liabilities recorded in excess.

The restatement of Governmental Activities net assets was for the restatements listed above and to remove a capital lease liability that was fulfilled as of June 30, 2010.

NOTE 17 - RISK MANAGEMENT

Lake County Regional Office of Education No. 34 is exposed to various risks of loss related to torts, theft, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by the purchase of commercial insurance. Lake County Regional Office of Education No. 34 assumes liability for any deductibles and claims in excess of coverage limitations. There has been no significant reduction in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the year.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 18 - NEW PRONOUNCEMENTS

In 2011, Lake County Regional Office of Education No. 34 implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Regional Office of Education No. 34 implemented these standards during the current year; however, GASB Statements No. 59 and 62 had no significant impact on the financial statements. The implementation of GASB Statement No. 54 changed fund balance reporting for governmental funds by adding some additional fund balance classifications, clarifying governmental fund type definitions, and providing additional disclosures on how fund balance constraints are imposed and may be modified or eliminated.

This information is an integral part of the accompanying financial statements.

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

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF FUNDING PROGRESS -
OTHER POSTEMPLOYMENT BENEFITS
 (Unaudited)
 June 30, 2011

OTHER POSTEMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS

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)
6/30/11	\$ 0	\$ 271,000	\$ 271,000	0%	\$1,285,600	21.1%
6/30/10	0	271,000	271,000	0%	1,663,000	16.3%

SUPPLEMENTAL INFORMATION

**LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
COMBINING SCHEDULE OF ACCOUNTS
GENERAL FUND ACCOUNTS
June 30, 2011**

	<u>General State Aid</u>	<u>Educational Services Division Local Operations</u>	<u>PASS (Positive Alternative Student Services)</u>	<u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ 84,460	\$ 29,728	\$ -	\$ 114,188
Investments	350,646	-	-	350,646
Accounts receivable	-	767	-	767
Due from other funds	659,973	779,687	74,481	1,514,141
	<u>1,095,079</u>	<u>810,182</u>	<u>74,481</u>	<u>1,979,742</u>
TOTAL ASSETS	\$ 1,095,079	\$ 810,182	\$ 74,481	\$ 1,979,742
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accrued expenses	\$ 55,455	\$ 3,527	\$ 22,004	\$ 80,986
Deferred revenue	-	60,703	-	60,703
Total liabilities	55,455	64,230	22,004	141,689
FUND BALANCE				
Assigned	22,954	-	52,477	75,431
Unassigned	1,016,670	745,952	-	1,762,622
Total fund balance	1,039,624	745,952	52,477	1,838,053
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,095,079	\$ 810,182	\$ 74,481	\$ 1,979,742

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL FUND ACCOUNTS
Year Ended June 30, 2011

	<u>General State Aid</u>	<u>Educational Services Division Local Operations</u>	<u>PASS (Positive Alternative Student Services)</u>	<u>Totals</u>
REVENUES:				
Federal sources	\$ 93,714	\$ -	\$ -	\$ 93,714
State sources	1,720,382	-	-	1,720,382
Local sources:				
Intergovernmental	-	167,261	128	167,389
Interest	646	328	54	1,028
On-behalf payments	1,211,676	-	-	1,211,676
	<u>3,026,418</u>	<u>167,589</u>	<u>182</u>	<u>3,194,189</u>
Total revenues				
EXPENDITURES:				
Instructional services:				
Salaries	152,249	11,755	24,999	189,003
Employee benefits	44,832	15,895	10,193	70,920
Purchased services	22,133	33,539	1,489	57,161
Supplies and materials	10,489	25	809	11,323
Payments to other governments	1,426,209	-	-	1,426,209
Other objects	7,989	64	-	8,053
On-behalf payments	1,211,676	-	-	1,211,676
Capital outlay	1,013	3,573	-	4,586
	<u>2,876,590</u>	<u>64,851</u>	<u>37,490</u>	<u>2,978,931</u>
Total expenditures				
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>149,828</u>	<u>102,738</u>	<u>(37,308)</u>	<u>215,258</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	1,691	1,691
Transfer out	-	-	(879)	(879)
Repayment of long-term lease payable	(5,270)	-	-	(5,270)
Interest expense	(1,094)	-	-	(1,094)
Total other financing sources (uses)	<u>(6,364)</u>	<u>-</u>	<u>812</u>	<u>(5,552)</u>
NET CHANGE IN FUND BALANCE	143,464	102,738	(36,496)	209,706
FUND BALANCE, BEGINNING OF YEAR AS RESTATED	<u>896,160</u>	<u>643,214</u>	<u>88,973</u>	<u>1,628,347</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,039,624</u>	<u>\$ 745,952</u>	<u>\$ 52,477</u>	<u>\$ 1,838,053</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND ACCOUNTS
 June 30, 2011

SCHEDULE 3

	<u>Title I - Reading First Part B SEA Funds</u>	<u>Regional Safe Schools</u>	<u>Truants Alternative/ Optional Education</u>	<u>McKinney Education for Homeless Children</u>	<u>Juvenile Detention Fund</u>
ASSETS					
Cash and cash equivalents	\$ 663	\$ 76,847	\$ -	\$ 16,825	\$ 236,532
Accounts receivable	-	-	-	-	-
Due from other governments	-	578,384	116,095	-	470,303
	<u>663</u>	<u>655,031</u>	<u>116,095</u>	<u>16,825</u>	<u>706,835</u>
TOTAL ASSETS					
	<u>\$ 663</u>	<u>\$ 655,031</u>	<u>\$ 116,095</u>	<u>\$ 16,825</u>	<u>\$ 706,835</u>
LIABILITIES AND FUND BALANCE (DEFICIT)					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ 237	\$ -
Accrued expenses	-	-	36,756	-	126,991
Due to other funds	-	577,923	85,559	-	-
Due to other governments	-	247,697	-	-	-
Deferred revenue	-	46,968	23,223	16,588	333,331
Total liabilities	-	872,588	145,538	16,825	460,322
FUND BALANCE (DEFICIT)					
Restricted	663	-	-	-	246,513
Unassigned	-	(217,557)	(29,443)	-	-
Total fund balance (deficit)	<u>663</u>	<u>(217,557)</u>	<u>(29,443)</u>	<u>-</u>	<u>246,513</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)					
	<u>\$ 663</u>	<u>\$ 655,031</u>	<u>\$ 116,095</u>	<u>\$ 16,825</u>	<u>\$ 706,835</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING SCHEDULE OF ACCOUNTS
 EDUCATION FUND ACCOUNTS
 June 30, 2011

SCHEDULE 3
 (CONTINUED)

	<u>Teacher Mentoring Program</u>	<u>Principal Mentoring Program</u>	<u>ROE/ISC Operations</u>	<u>Totals</u>
ASSETS				
Cash and cash equivalents	\$ -	\$ 9,612	\$ -	\$ 340,279
Accounts receivable	-	41,250	-	41,250
Due from other governments	<u>59,815</u>	<u>-</u>	<u>98,492</u>	<u>1,323,089</u>
TOTAL ASSETS	<u>\$ 59,815</u>	<u>\$ 50,862</u>	<u>\$ 98,492</u>	<u>\$ 1,704,618</u>
LIABILITIES AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accounts payable	\$ -	\$ 30,000	\$ -	\$ 30,237
Accrued expenses	-	-	7,179	170,926
Due to other funds	8,216	-	96,325	768,023
Due to other governments	51,841	-	-	299,538
Deferred revenue	<u>-</u>	<u>30,000</u>	<u>32,814</u>	<u>482,924</u>
Total liabilities	60,057	60,000	136,318	1,751,648
FUND BALANCE (DEFICIT)				
Restricted	-	-	-	247,176
Unassigned	<u>(242)</u>	<u>(9,138)</u>	<u>(37,826)</u>	<u>(294,206)</u>
Total fund balance (deficit)	<u>(242)</u>	<u>(9,138)</u>	<u>(37,826)</u>	<u>(47,030)</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 59,815</u>	<u>\$ 50,862</u>	<u>\$ 98,492</u>	<u>\$ 1,704,618</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 Year Ended June 30, 2011

SCHEDULE 4

	<u>Title I - Reading First Part B SEA Funds</u>	<u>Regional Safe Schools</u>	<u>Truants Alternative/ Optional Education</u>	<u>McKinney Education for Homeless Children</u>	<u>Juvenile Detention Fund</u>
REVENUES:					
Federal sources	\$ 84,403	\$ 35,421	\$ -	\$ 27,912	\$ -
State sources	-	866,422	136,253	-	371,735
Local sources:					
Interest	-	275	-	-	-
Total revenues	<u>84,403</u>	<u>902,118</u>	<u>136,253</u>	<u>27,912</u>	<u>371,735</u>
EXPENDITURES:					
Instructional services:					
Salaries	-	-	87,359	-	380,668
Employee benefits	-	-	22,647	237	150,831
Purchased services	4,410	139,933	11,430	24,214	12,500
Supplies and materials	79,994	-	879	3,293	1,031
Payments to other governments	-	952,052	-	-	-
Other objects	-	-	-	168	2,201
Capital outlay	-	-	-	-	-
Total expenditures	<u>84,404</u>	<u>1,091,985</u>	<u>122,315</u>	<u>27,912</u>	<u>547,231</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1)</u>	<u>(189,867)</u>	<u>13,938</u>	<u>-</u>	<u>(175,496)</u>
OTHER FINANCING SOURCES (USES):					
Repayment of long-term lease payable	-	-	-	-	-
Interest expense	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	(1)	(189,867)	13,938	-	(175,496)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	<u>664</u>	<u>(27,690)</u>	<u>(43,381)</u>	<u>-</u>	<u>422,009</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 663</u>	<u>\$ (217,557)</u>	<u>\$ (29,443)</u>	<u>\$ -</u>	<u>\$ 246,513</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 EDUCATION FUND ACCOUNTS
 Year Ended June 30, 2011

SCHEDULE 4
 (CONTINUED)

	<u>Teacher Mentoring Program</u>	<u>Principal Mentoring Program</u>	<u>ROE/ISC Operations</u>	<u>Totals</u>
REVENUES:				
Federal sources	\$ -	\$ -	\$ -	\$ 147,736
State sources	101,483	13,078	237,125	1,726,096
Local sources:				
Interest	-	-	-	275
Total revenues	<u>101,483</u>	<u>13,078</u>	<u>237,125</u>	<u>1,874,107</u>
EXPENDITURES:				
Instructional services:				
Salaries	-	-	61,094	529,121
Employee benefits	-	-	43,720	217,435
Purchased services	2,630	34,135	55,614	284,866
Supplies and materials	9,080	1,469	5,514	101,260
Payments to other governments	64,488	-	-	1,016,540
Other objects	-	-	-	2,369
Capital outlay	-	-	11,018	11,018
Total expenditures	<u>76,198</u>	<u>35,604</u>	<u>176,960</u>	<u>2,162,609</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>25,285</u>	<u>(22,526)</u>	<u>60,165</u>	<u>(288,502)</u>
OTHER FINANCING SOURCES (USES):				
Repayment of long-term lease payable	-	-	(21,423)	(21,423)
Interest expense	-	-	(4,079)	(4,079)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(25,502)</u>	<u>(25,502)</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	25,285	(22,526)	34,663	(314,004)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	<u>(25,527)</u>	<u>13,388</u>	<u>(72,489)</u>	<u>266,974</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (242)</u>	<u>\$ (9,138)</u>	<u>\$ (37,826)</u>	<u>\$ (47,030)</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS - BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2011

SCHEDULE 5

	Title I - Reading First Part B SEA Funds				Regional Safe Schools				Truants Alternative/Optional Education			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES:												
Federal sources	\$ 177,675	\$ 177,675	\$ 84,403	\$ (93,272)	\$ -	\$ -	\$ 35,421	\$ 35,421	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	563,614	563,614	866,422	302,808	116,095	116,095	136,253	20,158
Local sources:												
Interest	-	-	-	-	-	-	275	275	-	-	-	-
Total revenues	<u>177,675</u>	<u>177,675</u>	<u>84,403</u>	<u>(93,272)</u>	<u>563,614</u>	<u>563,614</u>	<u>902,118</u>	<u>338,504</u>	<u>116,095</u>	<u>116,095</u>	<u>136,253</u>	<u>20,158</u>
EXPENDITURES:												
Instructional services:												
Salaries	-	-	-	-	-	-	-	-	80,827	80,827	87,359	(6,532)
Employee benefits	-	-	-	-	-	-	-	-	21,822	21,822	22,647	(825)
Purchased services	-	7,070	4,410	2,660	139,933	139,933	139,933	-	12,501	12,501	11,430	1,071
Supplies and materials	58,069	106,589	79,994	26,595	-	-	-	-	945	945	879	66
Payments to other governments	119,606	64,016	-	64,016	423,681	423,681	952,052	(528,371)	-	-	-	-
Other objects	-	-	-	-	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	-	-	-	-
Total expenditures	<u>177,675</u>	<u>177,675</u>	<u>84,404</u>	<u>93,271</u>	<u>563,614</u>	<u>563,614</u>	<u>1,091,985</u>	<u>(528,371)</u>	<u>116,095</u>	<u>116,095</u>	<u>122,315</u>	<u>(6,220)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>(1)</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(189,867)</u>	<u>\$ (189,867)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,938</u>	<u>\$ 13,938</u>
OTHER FINANCING SOURCES (USES):												
Repayment of long-term lease payable			-				-				-	
Interest expense			-				-				-	
Total other financing sources (uses)			<u>-</u>				<u>-</u>				<u>-</u>	
NET CHANGE IN FUND BALANCE (DEFICIT)				<u>(1)</u>			<u>(189,867)</u>				<u>13,938</u>	
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED			<u>664</u>				<u>(27,690)</u>				<u>(43,381)</u>	
FUND BALANCE (DEFICIT), END OF YEAR			<u>\$ 663</u>				<u>\$(217,557)</u>				<u>\$ (29,443)</u>	

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS - BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2011

SCHEDULE 5
 (CONTINUED)

	McKinney Education for Homeless Children				Teacher Mentoring Program				ROE/ISC Operations			
	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget	Original	Final	Amounts	Final Budget
REVENUES:												
Federal sources	\$ 44,500	\$ 44,500	\$ 27,912	\$ (16,588)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	-	-	-	-	158,927	158,927	101,483	(57,444)	196,890	196,890	237,125	40,235
Local sources:												
Interest	-	-	-	-	-	-	-	-	-	-	-	-
Total revenues	<u>44,500</u>	<u>44,500</u>	<u>27,912</u>	<u>(16,588)</u>	<u>158,927</u>	<u>158,927</u>	<u>101,483</u>	<u>(57,444)</u>	<u>196,890</u>	<u>196,890</u>	<u>237,125</u>	<u>40,235</u>
EXPENDITURES:												
Instructional services:												
Salaries	-	-	-	-	19,622	19,622	-	19,622	54,479	54,479	61,094	(6,615)
Employee benefits	-	-	237	(237)	-	-	-	-	35,517	35,517	43,720	(8,203)
Purchased services	38,800	38,800	24,214	14,586	15,050	15,050	2,630	12,420	91,894	91,894	55,614	36,280
Supplies and materials	5,700	5,700	3,293	2,407	10,325	10,325	9,080	1,245	5,000	5,000	5,514	(514)
Payments to other governments	-	-	-	-	113,930	113,930	64,488	49,442	-	-	-	-
Other objects	-	-	168	(168)	-	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-	-	10,000	10,000	11,018	(1,018)
Total expenditures	<u>44,500</u>	<u>44,500</u>	<u>27,912</u>	<u>16,588</u>	<u>158,927</u>	<u>158,927</u>	<u>76,198</u>	<u>82,729</u>	<u>196,890</u>	<u>196,890</u>	<u>176,960</u>	<u>19,930</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>25,285</u>	<u>\$ 25,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>60,165</u>	<u>\$ 60,165</u>
OTHER FINANCING SOURCES (USES):												
Repayment of long-term lease payable			-				-				(21,423)	
Interest expense			-				-				(4,079)	
Total other financing sources (uses)			<u>-</u>				<u>-</u>				<u>(25,502)</u>	
NET CHANGE IN FUND BALANCE (DEFICIT)							25,285				34,663	
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED							(25,527)				(72,489)	
FUND BALANCE (DEFICIT), END OF YEAR			<u>\$ -</u>				<u>\$ (242)</u>				<u>\$ (37,826)</u>	

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 EDUCATION FUND ACCOUNTS - BUDGETARY COMPARISON SCHEDULE
 Year Ended June 30, 2011

SCHEDULE 5
 (CONTINUED)

	Total			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Federal sources	\$ 222,175	\$ 222,175	\$ 147,736	\$ (74,439)
State sources	1,035,526	1,035,526	1,341,283	305,757
Local sources:				
Interest	-	-	275	275
Total revenues	1,257,701	1,257,701	1,489,294	231,593
EXPENDITURES:				
Instructional services:				
Salaries	154,928	154,928	148,453	6,475
Employee benefits	57,339	57,339	66,604	(9,265)
Purchased services	298,178	305,248	238,231	67,017
Supplies and materials	80,039	128,559	98,760	29,799
Payments to other governments	657,217	601,627	1,016,540	(414,913)
Other objects	-	-	168	(168)
Capital outlay	10,000	10,000	11,018	(1,018)
Total expenditures	1,257,701	1,257,701	1,579,774	(322,073)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	\$ -	\$ -	(90,480)	\$ (90,480)
OTHER FINANCING SOURCES (USES):				
Repayment of long-term lease payable			(21,423)	
Interest expense			(4,079)	
Total other financing sources (uses)			(25,502)	
NET CHANGE IN FUND BALANCE (DEFICIT)			(115,982)	
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED			(168,423)	
FUND BALANCE (DEFICIT), END OF YEAR			\$ (284,405)	

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2011

SCHEDULE 6

ASSETS	<u>General Education Development</u>	<u>Bus Driver Training</u>	<u>Regional Board of School Trustees</u>	<u>Supervisory</u>	<u>Reading Recovery Installation Fees</u>
Cash and cash equivalents	\$ 41,690	\$ 26,145	\$ 3,549	\$ 19	\$ 80,472
Investments	-	-	-	-	-
Due from other funds	-	-	-	-	1,138
Due from other governments	<u>27,190</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 68,880</u>	<u>\$ 26,145</u>	<u>\$ 3,549</u>	<u>\$ 19</u>	<u>\$ 81,610</u>
LIABILITIES AND FUND BALANCE (DEFICIT)					
LIABILITIES					
Accrued expenses	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-
Due to other governments	30,725	-	-	-	-
Deferred revenues	<u>6,810</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>37,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE (DEFICIT)					
Restricted	31,345	26,145	3,549	19	81,610
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balance (deficit)	<u>31,345</u>	<u>26,145</u>	<u>3,549</u>	<u>19</u>	<u>81,610</u>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	<u>\$ 68,880</u>	<u>\$ 26,145</u>	<u>\$ 3,549</u>	<u>\$ 19</u>	<u>\$ 81,610</u>

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2011

SCHEDULE 6
 (CONTINUED)

ASSETS	<u>Reading Improvement Block</u>	<u>Reading Recovery Operations</u>	<u>Distributive Interest</u>	<u>Learning Technology Center</u>
Cash and cash equivalents	\$ -	\$ -	\$ 14,383	\$ -
Investments	-	-	-	-
Due from other funds	-	-	-	-
Due from other governments	-	18,477	-	43,596
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ -	\$ 18,477	\$ 14,383	\$ 43,596
LIABILITIES AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accrued expenses	\$ -	\$ 8,034	\$ -	\$ -
Due to other funds	-	1,138	-	44,387
Due to other governments	-	18,477	-	-
Deferred revenues	-	-	-	14,532
Total liabilities	<hr/>	<hr/>	<hr/>	<hr/>
	-	27,649	-	58,919
FUND BALANCE (DEFICIT)				
Restricted	-	-	14,383	-
Unassigned	-	(9,172)	-	(15,323)
Total fund balance (deficit)	<hr/>	<hr/>	<hr/>	<hr/>
	-	(9,172)	14,383	(15,323)
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	\$ -	\$ 18,477	\$ 14,383	\$ 43,596

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2011

SCHEDULE 6
 (CONTINUED)

ASSETS	<u>PASS (Positive Alternative Student Services)</u>	<u>Pre-School Monitoring</u>	<u>National Dropout Prevention Conference</u>	<u>Totals</u>
Cash and cash equivalents	\$ 21,959	\$ -	\$ 2,250	\$ 190,467
Investments	26,306	-	-	26,306
Due from other funds	-	-	-	1,138
Due from other governments	-	26,585	-	115,848
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 48,265	\$ 26,585	\$ 2,250	\$ 333,759
LIABILITIES AND FUND BALANCE (DEFICIT)				
LIABILITIES				
Accrued expenses	\$ 7,089	\$ -	\$ -	\$ 15,123
Due to other funds	-	26,585	-	72,110
Due to other governments	-	-	-	49,202
Deferred revenues	-	-	-	21,342
Total liabilities	<hr/> 7,089	<hr/> 26,585	<hr/> -	<hr/> 157,777
FUND BALANCE (DEFICIT)				
Restricted	41,176	-	2,250	200,477
Unassigned	-	-	-	(24,495)
Total fund balance (deficit)	<hr/> 41,176	<hr/> -	<hr/> 2,250	<hr/> 175,982
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)	\$ 48,265	\$ 26,585	\$ 2,250	\$ 333,759

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2011

SCHEDULE 7

	<u>General Education Development</u>	<u>Bus Driver Training</u>	<u>Regional Board of School Trustees</u>	<u>Supervisory</u>	<u>Reading Recovery Installation Fees</u>
REVENUES:					
State sources	\$ -	\$ 4,067	\$ -	\$ -	\$ -
Local sources:					
Intergovernmental	-	-	-	-	2,000
Fees for services	61,263	17,032	-	-	-
Interest	-	-	-	-	-
Total revenues	61,263	21,099	-	-	2,000
EXPENDITURES:					
Instructional services:					
Salaries	-	-	-	-	-
Employee benefits	-	-	-	-	-
Purchased services	54,280	10,472	-	-	-
Supplies and materials	1,929	369	-	-	-
Payments to other governments	-	-	-	-	-
Other objects	4,580	164	-	-	-
Capital outlay	364	-	-	-	-
Total expenditures	61,153	11,005	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	110	10,094	-	-	2,000
OTHER FINANCING SOURCES (USES)					
Transfer in	-	-	-	-	-
Transfer out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCE (DEFICIT)	110	10,094	-	-	2,000
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	31,235	16,051	3,549	19	79,610
FUND BALANCE (DEFICIT), END OF YEAR	\$ 31,345	\$ 26,145	\$ 3,549	\$ 19	\$ 81,610

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2011

SCHEDULE 7
 (CONTINUED)

	<u>Reading Improvement Block</u>	<u>Reading Recovery Operations</u>	<u>Distributive Interest</u>	<u>Learning Technology Center</u>
REVENUES:				
State sources	\$ 9,108	\$ -	\$ -	\$ 105,215
Local sources:				
Intergovernmental	-	74,538	-	-
Fees for services	-	67,725	4,171	-
Interest	-	-	11,499	-
Total revenues	9,108	142,263	15,670	105,215
EXPENDITURES:				
Instructional services:				
Salaries	-	96,916	-	79,480
Employee benefits	-	20,795	173	8,505
Purchased services	-	28,108	8,087	1,954
Supplies and materials	-	33,646	733	-
Payments to other governments	-	22,477	100	-
Other objects	-	-	4,989	-
Capital outlay	-	-	1,300	-
Total expenditures	-	201,942	15,382	89,939
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	9,108	(59,679)	288	15,276
OTHER FINANCING SOURCES (USES)				
Transfer in	-	21,000	-	-
Transfer out	-	-	-	-
Total other financing sources (uses)	-	21,000	-	-
NET CHANGE IN FUND BALANCE (DEFICIT)	9,108	(38,679)	288	15,276
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	(9,108)	29,507	14,095	(30,599)
FUND BALANCE (DEFICIT), END OF YEAR	\$ -	\$ (9,172)	\$ 14,383	\$ (15,323)

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2011

SCHEDULE 7
 (CONTINUED)

	<u>PASS (Positive Alternative Student Services)</u>	<u>Pre-School Monitoring</u>	<u>National Dropout Prevention Conference</u>	<u>Totals</u>
REVENUES:				
State sources	\$ -	\$ 26,585	\$ -	\$ 144,975
Local sources:				
Intergovernmental	26,774	-	3,750	107,062
Fees for services	-	-	-	150,191
Interest	380	-	-	11,879
Total revenues	<u>27,154</u>	<u>26,585</u>	<u>3,750</u>	<u>414,107</u>
EXPENDITURES:				
Instructional services:				
Salaries	21,735	-	-	198,131
Employee benefits	1,781	-	-	31,254
Purchased services	10,175	26,585	-	139,661
Supplies and materials	2,177	-	-	38,854
Payments to other governments	-	-	-	22,577
Other objects	-	224	10,000	19,957
Capital outlay	-	-	-	1,664
Total expenditures	<u>35,868</u>	<u>26,809</u>	<u>10,000</u>	<u>452,098</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(8,714)	(224)	(6,250)	(37,991)
OTHER FINANCING SOURCES (USES)				
Transfer in	-	-	-	21,000
Transfer out	(812)	-	-	(812)
Total other financing sources (uses)	<u>(812)</u>	<u>-</u>	<u>-</u>	<u>20,188</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	(9,526)	(224)	(6,250)	(17,803)
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED	<u>50,702</u>	<u>224</u>	<u>8,500</u>	<u>193,785</u>
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ 41,176</u>	<u>\$ -</u>	<u>\$ 2,250</u>	<u>\$ 175,982</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 BUDGETARY COMPARISON SCHEDULE
 NONMAJOR SPECIAL REVENUE FUNDS
 Year Ended June 30, 2011

	<u>Learning Technology Center</u>			Variance with Final Budget
	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	
	<u>Original</u>	<u>Final</u>		
REVENUES:				
State sources	\$ 87,194	\$ 87,194	\$ 105,215	\$ 18,021
EXPENDITURES:				
Instructional services:				
Salaries	79,480	79,480	79,480	-
Employee benefits	7,714	7,714	8,505	(791)
Purchased services	-	-	1,954	(1,954)
Total expenditures	<u>87,194</u>	<u>87,194</u>	<u>89,939</u>	<u>(2,745)</u>
NET CHANGE IN FUND BALANCE (DEFICIT)	<u>\$ -</u>	<u>\$ -</u>	15,276	<u>\$ 15,276</u>
FUND BALANCE (DEFICIT), BEGINNING OF YEAR AS RESTATED			<u>(30,599)</u>	
FUND BALANCE (DEFICIT), END OF YEAR			<u>\$ (15,323)</u>	

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>PASS (Positive Alternative Student Services)</u>	<u>Fingerprinting Assessment</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,308	\$ 103,049	\$ 106,357
Non-current assets:			
Capital assets, being depreciated, net	<u>-</u>	<u>727</u>	<u>727</u>
Total assets	<u>3,308</u>	<u>103,776</u>	<u>107,084</u>
LIABILITIES			
None	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS			
Investment in capital assets, net of related debt Unrestricted	<u>-</u> <u>3,308</u>	<u>727</u> <u>103,049</u>	<u>727</u> <u>106,357</u>
Total net assets	<u>\$ 3,308</u>	<u>\$ 103,776</u>	<u>\$ 107,084</u>

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 NONMAJOR PROPRIETARY FUNDS
 Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>PASS (Positive Alternative Student Services)</u>	<u>Fingerprinting Assessment</u>	<u>Total</u>
OPERATING REVENUES:			
Fees for services	\$ -	\$ 45,118	\$ 45,118
OPERATING EXPENSES:			
Purchased services	-	20,105	20,105
Supplies and materials	-	2,029	2,029
Other objects	-	324	324
Capital outlay	-	445	445
Depreciation	-	2,668	2,668
Total operating expenses	-	25,571	25,571
OPERATING INCOME	-	19,547	19,547
NET ASSETS, BEGINNING OF YEAR	3,308	84,229	87,537
NET ASSETS, END OF YEAR	\$ 3,308	\$ 103,776	\$ 107,084

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR PROPRIETARY FUNDS
 Year Ended June 30, 2011

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>PASS (Positive Alternative Student Services)</u>	<u>Fingerprinting Assessment</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from workshops and services	\$ -	\$ 45,118	\$ 45,118
Payments to suppliers and providers of goods and services	-	(21,787)	(21,787)
Net cash provided by operating activities	<u>-</u>	<u>23,331</u>	<u>23,331</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	23,331	23,331
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,308</u>	<u>79,718</u>	<u>83,026</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,308</u>	<u>\$ 103,049</u>	<u>\$ 106,357</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ -	\$ 19,547	\$ 19,547
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	-	2,668	2,668
Change in assets:			
Due from other governments	-	1,116	1,116
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 23,331</u>	<u>\$ 23,331</u>

STATEMENT OF CHANGES IN
ASSETS AND LIABILITIES
AGENCY FUNDS
Year Ended June 30, 2011

	<u>Balance, July 1, 2010</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance, June 30, 2011</u>
DISTRIBUTIVE FUND				
ASSETS				
Cash and cash equivalents	\$ 3,022	\$ 4,023,808	\$ 4,025,822	\$ 1,008
LIABILITIES				
Due to other governments	\$ 3,022	\$ 4,023,808	\$ 4,025,822	\$ 1,008

LAKE COUNTY
 REGIONAL OFFICE OF EDUCATION NO. 34
 SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURERS AND OTHER ENTITIES
 Year Ended June 30, 2011

SCHEDULE 13

<u>Program</u>	<u>Regional Superintendent of Schools</u>	<u>Education Service Center</u>	<u>Truancy Alternative Program</u>	<u>Northfield Township HSD 225</u>	<u>Glenview CSD 34</u>	<u>Totals</u>
Interest	\$ 2,069	\$ -	\$ -	\$ -	\$ -	\$ 2,069
General State Aid - Safe School	389,024	-	-	-	-	389,024
General State Aid - ALOP	1,331,358	-	-	-	-	1,331,358
School Bus Driver Training	4,067	-	-	-	-	4,067
Truant Alternative Optional Education	-	-	72,299	-	-	72,299
ROE Safe School	524,664	-	-	-	-	524,664
Reading Leadership RR	13,665	-	-	-	-	13,665
ROE/ISC Operations	-	207,996	-	-	-	207,996
Technology - Learning Technology Center	-	94,628	-	-	-	94,628
Teacher Mentoring	-	88,452	-	-	-	88,452
Title I - Reading First Part B	-	118,450	-	-	-	118,450
ARRA Education Jobs Fund - Safe School	20,651	-	-	-	-	20,651
ARRA GSA Education Jobs Fund - ALOP	93,714	-	-	-	-	93,714
Federal Impact Aid	-	-	-	250,697	467,281	717,978
ARRA Title I School Improvement	-	346,807	-	-	-	346,807
Totals	\$ 2,379,212	\$ 856,333	\$ 72,299	\$ 250,697	\$ 467,281	\$ 4,025,822

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

<u>Federal Grantor/Pass- Through Grantor, Program or Cluster Title</u>	<u>CFDA Number</u>	<u>Project Number (1st 8 digits) or Contract #</u>	<u>Federal Expenditures 7/1/2010-6/30/2011</u>
U.S. Department of Education			
ARRA - Education Jobs Fund			
Passed through Illinois State Board of Education			
ARRA - Education Jobs Fund	84.410A	2011-4880-93	\$ 35,421
ARRA - Education Jobs Fund	84.410A	2011-4880-95	93,714
			<u>129,135</u>
Reading First State Grants			
Passed through Illinois State Board of Education			
Title I - Reading First Part B SEA	84.357A	2010-4337-00	<u>84,403</u>
Title I Grants to Local Educational Agencies			
Passed through Will County Regional Office of Education No. 56			
(M) Title I - School Improvement and Accountability	84.010A	2010-4331-SS	29,196
(M) Title I - School Improvement and Accountability	84.010A	2011-4331-SS	1,436,532
Passed through Illinois State Board of Education			
(M) ARRA - Title I - School Improvement and Accountability	84.389A	2011-4854-00	458,455
Title I, Part A Cluster			<u>1,924,183</u>
Education for Homeless Children and Youth			
Passed through Will County Regional Office of Education No. 56			
McKinney Education for Homeless Children	84.196A	2011-4920-00	<u>27,912</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>2,165,633</u>

(M) Program was audited as a major program

The accompanying notes are an integral part of this schedule.

LAKE COUNTY REGIONAL OFFICE OF EDUCATION NO. 34
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

NOTE 1 - REPORTING ENTITY BASIS OF PRESENTATION AND ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Regional Office of Education No. 34 and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of these basic financial statements.

NOTE 2 - SUBRECIPIENTS

NONE

NOTE 3 - DESCRIPTION OF MAJOR FEDERAL PROGRAMS

Title I, Part A Cluster - accounts for grant monies received for, and payment of, expenditures of the Title I - School Improvement and Accountability Fund. This grant provides school districts with funds to carry out their school improvement and corrective action responsibilities under Sections 1116(c) of Title I while offering students in schools identified for improvement and corrective action the opportunity to transfer to another higher performing public school, including a public charter school within the district.

NOTE 4 - NON-CASH ASSISTANCE

NONE

NOTE 5 - AMOUNT OF INSURANCE

NONE

NOTE 6 - LOANS OR LOAN GUARANTEES OUTSTANDING

NONE

This information is an integral part of the accompanying schedule.