

**STATE OF ILLINOIS
HANCOCK/MCDONOUGH
REGIONAL OFFICE OF EDUCATION NO. 26**

**FINANCIAL AUDIT
(In Accordance with the Single Audit Act
and OMB Circular A-133)
For the Year Ended June 30, 2005**

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26

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**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
OFFICIALS**

Regional Superintendent

Mr. Robert Baumann
(current and during audit period)

Assistant Regional Superintendent

Mr. Gary Eddington
(current and during audit period)

Offices are located at:

130 South Lafayette Street
Suite 200
Macomb, Illinois 61455

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
COMPLIANCE REPORT SUMMARY**

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

AUDITOR’S REPORTS

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

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit Findings	4	3
Repeated Audit Findings	2	2
Prior recommendations implemented or not repeated	1	4

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
		<i>Findings (Government Auditing Standards)</i>
05-01	12	Controls over compliance with laws and regulations
05-02	15	Lack of cost allocation plan
05-03	17	Failure to allocate interest earned
05-04	20	Lack of authorized approval on timesheets
		<i>Findings and Questioned Costs (Federal Compliance)</i>
05-02	15	Lack of cost allocation plan
05-03	17	Failure to allocate interest earned
05-04	20	Lack of authorized approval on timesheets
		<i>Prior Audit Findings not Repeated (Government Auditing Standards)</i>
04-02	29	No fiscal policies and procedures manual

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
COMPLIANCE REPORT SUMMARY - CONTINUED**

EXIT CONFERENCE

An exit conference was held on November 10, 2005 at ROE No. 26. Attending were Robert Baumann, Regional Superintendent, Betty Martin, Bookkeeper, and Leslie Ruyle, Supervisor and Jill Daugherty, Staff Accountant from Sikich LLP. The findings and audit process in general were discussed. Responses to the recommendations were provided by Robert Baumann on January 24, 2006.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
FINANCIAL STATEMENT REPORT
SUMMARY**

The audit of the accompanying basic financial statements of Hancock/McDonough Regional Office of Education No. 26 was performed by Sikich LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Hancock/McDonough Regional Office of Education No. 26's basic financial statements.



Independent Auditors' Report

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock/McDonough Regional Office of Education No. 26, as of and for the year ended June 30, 2005, which collectively comprise the Hancock/McDonough Regional Office of Education No. 26's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Regional Office of Education No. 26's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock/McDonough Regional Office of Education No. 26, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2005 on our consideration of the Hancock/McDonough Regional Office of Education No. 26's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Illinois Municipal Retirement Fund Schedule of Funding Progress on pages 30 through 36 and 69 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hancock/McDonough Regional Office of Education No. 26's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, and Schedule of Disbursements to School District Treasurers and Others are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Hancock/McDonough Regional Office of Education No. 26. The combining and individual nonmajor fund financial statements, budgetary comparison schedules, Schedule of Disbursements to School District Treasurers and Others, and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Sikich LLP

Springfield, Illinois
November 10, 2005



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hancock/McDonough Regional Office of Education No. 26, as of and for the year ended June 30, 2005, which collectively comprise the Hancock/McDonough Regional Office of Education No. 26's basic financial statements and have issued our report thereon dated November 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hancock/McDonough Regional Office of Education No. 26's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Hancock/McDonough Regional Office of Education No. 26's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-02, 05-03, and 05-04.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hancock/McDonough Regional Office of Education No. 26's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we reported on the accompanying Schedule of Findings and Questioned Costs as item 05-01.

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



Springfield, Illinois
November 10, 2005



**Report on Compliance With Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Hancock/McDonough Regional Office of Education No. 26 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The Hancock/McDonough Regional Office of Education No. 26's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hancock/McDonough Regional Office of Education No. 26's management. Our responsibility is to express an opinion on the Hancock/McDonough Regional Office of Education No. 26's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hancock/McDonough Regional Office of Education No. 26's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hancock/McDonough Regional Office of Education No. 26's compliance with those requirements.

In our opinion, the Hancock/McDonough Regional Office of Education No. 26 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 05-02, 05-03, and 05-04.

Internal Control Over Compliance

The management of the Hancock/McDonough Regional Office of Education No. 26 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hancock/McDonough Regional Office of Education No. 26's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the Hancock/McDonough Regional Office of Education No. 26's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-02, 05-03 and 05-04.

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

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

Sikich LLP

Springfield, Illinois
November 10, 2005

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2005

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: *unqualified*

Internal control over financial reporting:
 Material weakness(es) identified? _____ yes x no
 Reportable condition(s) identified that is not
 considered to be material weaknesses? x yes _____ none reported

Noncompliance material to financial statements noted? _____ yes x no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? _____ yes x no
 Reportable condition(s) identified that is not
 considered to be material weaknesses? x yes _____ no

Type of auditor’s report issued on compliance
 for major programs: *unqualified*

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

Identification of major programs:

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

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

Auditee qualified as low-risk auditee? _____ yes x no

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For The Year Ended June 30, 2005

FINDING 05-01 – Controls over compliance with laws and regulations (Section A. is Partially Repeated from Finding 04-01)

CRITERIA/SPECIFIC REQUIREMENT:

- A. The Illinois School Code (105 ILCS 5/3-6) requires the Regional Superintendent to report, in writing, to the county board, on or before January 1 of each year, stating: (1) the balance on hand at the time of the last report, and all receipts since that date, with the sources from which they were derived; (2) the amount distributed to each of the school treasurers in his or her county; and (3) any balance on hand.

The Regional Superintendent is also required to submit, in writing, to the county board a statement of the condition of the Institute Fund and of any other funds in his or her care, custody or control.

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

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

CONDITION:

- A. The Hancock/McDonough County Regional Office of Education No. 26 did not submit the required reports to its county boards on or before January 1, 2005.
- B. The Hancock/McDonough County Regional Office of Education No. 26 is not examining all books, accounts, and vouchers of every school treasurer in its educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent signs off on the Annual Financial Reports from the school districts in his region. In addition, the Regional Office gets a spreadsheet from the Illinois State Board of Education (ISBE) that outlines all of the school districts and their audit exceptions, if any. The Regional Office follows up with school districts having exceptions and gets the corrective action and forwards it to ISBE.

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For The Year Ended June 30, 2005

FINDING NO. 05-01 – Continued

EFFECT:

The Regional Office of Education No. 26 did not comply with statutory requirements.

CAUSE:

- A. The Hancock/McDonough County Regional Office of Education No. 26 was unaware of the requirement to submit these reports to its county boards.
- B. The Hancock/McDonough County Regional Office of Education No. 26's management believed that their review of each school district's annual report and subsequent follow-up with those school districts having audit exceptions would be adequate for compliance with the requirements of 105 ILCS 5/3-14.11.

RECOMMENDATION:

The Hancock/McDonough County Regional Office of Education No. 26 should ensure it complies with all applicable Illinois Compiled Statutes. Specifically, the ROE should submit the information required by 105 ILCS 5/3-6 to the counties by the statutory deadline as well as comply with the requirements of 105 ILCS 5/3-14.11. If the Regional Office believes the statutory requirements of 105 ILCS 5/14.11 are obsolete or otherwise unnecessary, then it should seek legislative action to revise the statute accordingly.

MANAGEMENT'S RESPONSE:

- A. On December 28, 2005, the Regional Superintendent did distribute to the County Board the information required by 105 ILCS 5/3-6. Information regarding the amount distributed to each of the school treasurers in the county does not apply because State Aid is wired directly to each district. Also, the county was informed as to the status of the Institute Fund.
- B. In 1953, there were 102 county superintendents and their duties were a lot less numerous than today. Few schools had budgets that exceeded \$500,000. Under such conditions, this law probably made sense. During the past 50+ years, various practices have evolved eliminating the need for this type of monitoring. In the 21st century, all schools have multi-million dollar budgets that are: 1.) audited annually by professionally certified outside auditing firms; 2.) audits are filed for public record and inspection; and 3.) this is tracked through the process by the procedures mentioned above in the section titled "Condition". Requiring the ROE's to do another review would be redundant, costly, and require the hiring of teams of new staff members in each ROE to carry out the task. The latter begs the

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For The Year Ended June 30, 2005

FINDING NO. 05-01 – Continued

question of which level(s) of government would bear the cost to carry out this task and how costly might that be to reinstitute the practice?

We are grateful for the OAG's assistance in calling this to our collective attention because it provides the Regional Offices of Education with additional justification to request that the General Assembly delete this and other obsolete sections from the statutes. We will seek a legislative solution to this and other obsolete passages.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-02 – Lack of cost allocation plan (Repeat of prior year findings: 04-03 and 03-06)

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities (b) Title I – Reading First Part B SEA Funds (c) Teaching American History

Project No. – (a) 511G5167721 (b) 05-4337-02 and 04-4337-02 (c) S215X010107

CFDA No. – (a) 84.181(b) 84.357A (c) 84.215X

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education (c) N/A

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

CRITERIA/SPECIFIC REQUIREMENT:

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

CONDITION:

The Regional Office of Education No. 26 does not maintain a cost allocation plan to allocate indirect costs as in accordance with OMB Circular A-87. The Regional Office of Education No. 26 invoices the various grants and programs it administers for central service activities, including support salaries and related benefits, accounting and secretarial services, and space rent based on the grants' budgeted costs, (rather than as part of a Cost Allocation Plan). Such salaries and benefits are allowable expenditures under OMB Circular A-87. However, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages is required to be documented in accordance with the provisions of OMB Circular A-87 or be included in the ROE's cost allocation plan. Rent costs are also an allowable expenditure, subject to limitations included in OMB Circular A-87.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-02 – Continued

QUESTIONED COSTS:

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

CONTEXT:

The Regional Office of Education allocated a total of \$18,656 of indirect costs to the above programs, with amounts allocated to each individual program totaling less than \$10,000. While these costs were approved in the grant budgets, without documentation of the basis for, and rationale behind, the allocations, the amounts over- or under-charged to the programs cannot be readily determined. Based on the total amount of allocated costs charged to the programs, any amount deemed to be over-charged to the Award most likely would be considered immaterial or less than \$10,000.

EFFECT:

The Regional Office of Education No. 26 is not able to determine if the amount of central service activities charged to the Federal Award represent the grant's "fair share" of costs recognized under principles required by OMB Circular A-87.

CAUSE:

The Regional Office of Education No. 26 determined the amount of costs to be allocated to the grant programs based on amounts allowable in grant budgets.

RECOMMENDATION:

The Regional Office of Education No. 26 should develop a cost allocation plan in accordance with OMB Circular A-87 which addresses allowable costs to all applicable programs.

MANAGEMENT'S RESPONSE:

The Regional Office has contacted a local certified public accounting firm (CPA) to address cost allocations.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-03 – Failure to allocate interest earned

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities (b) Temporary Assistance for Needy Families – Regional Safe Schools State Aid (c) Temporary Assistance for Needy Families – Regional Safe Schools (d) Social Services Block Grant (e) Even Start (f) Title I – Reading First Part B SEA Funds (g) Title IV – Safe and Drug Free Formula (h) Title IV – Community Service (i) McKinney Education for Homeless Children (j) McKinney Education for Homeless Children (k) Teaching American History (l) Standards Aligned Classroom Project (m) Title II – Teacher Quality

Project No. – (a) 511G5167721 (b) 05-3001-93 (c) 05-3696-00 and 04-3696-00 (d) 511G5167721 (e) 05-4335-00 (f) 05-4337-02 and 04-4337-02 (g) 05-4400-00 and 04-4400-00 (h) 04-4420-00 (i) 05-4920-00, 04-4920-00, and 04-4920-02 (j) 05-4920-00 and 04-4920-00 (k) S215X010107 (l) n/a (m) n/a

CFDA No. – (a) 84.181 (b) 93.558 (c) 93.558 (d) 93.667 (e) 84.213C (f) 84.357A (g) 84.186A (h) 84.184C (i) 84.196A (j) 84.196A (k) 84.215X (l) 84.298A (m) 84.367A

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education (c) Illinois State Board of Education (d) Illinois Department of Human Services (e) Illinois State Board of Education (f) Illinois State Board of Education (g) Illinois State Board of Education (h) Illinois State Board of Education (i) Illinois State Board of Education (j) Adult Learning Resource Center (k) n/a (l) Adult Learning Resource Center (m) Adult Learning Resource Center

Federal Agency – (a) U.S. Department of Education (b) U.S. Department of Health and Human Services (c) U.S. Department of Health and Human Services (d) U.S. Department of Education (e) U.S. Department of Education (f) U.S. Department of Education (g) U.S. Department of Education (h) U.S. Department of Education (i) U.S. Department of Education (j) U.S. Department of Education (k) U.S. Department of Education (l) U.S. Department of Education (m) U.S. Department of Education

CRITERIA/SPECIFIC REQUIREMENT:

The Regional Office of Education (ROE) Accounting Manual states that if dollars from two or more sources of funds (SOF) are combined in one bank account and/or fund, the ROE must allocate, on a reasonable basis, a portion of the interest earned on that bank account or fund to each of those SOF. The allocation should be done no less than monthly when bank statements are received. Once the interest is allocated to the appropriate SOF, certain rules apply to the expenditure of that interest. The *ROE Accounting Manual* states that the rules for allocating and expending interest vary depending on the SOF that generated the interest. Unless the grant agreement specifically addresses the interest issue and provides otherwise, the following rules would apply:

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-03 – Continued

- The Grant Funds Recovery Act (30 ILCS 705/1 et seq.) states that interest earned on grant funds becomes part of the grant principal and is treated accordingly for all purposes unless the grant agreement and/or the grant regulations provides otherwise. The Act further states that any grant funds not expended (or legally obligated) by the end of the grant period must be returned to the grantor. This applies to State and federal grants.
- Generally, federal rules supersede those of the state (for federal grants only). If a federal rule allows different treatment of interest, then the federal rule would be followed.
- Federal cash management requirements state that grantees and subgrantees shall minimize the time elapsed between the receipt of funds and the expenditure of those funds. The accumulation of interest would indicate excess cash on hand.
- U.S. Department of Education (USDE) regulations appear in 34 Code of Federal Regulations (CFR). Part 80 of 34 CFR is titled: “Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments”. It is also known as the “Common Rule” because most federal agencies have adopted it in their regulations. The “Common Rule” states that annual interest earned in excess of \$100.00 on advances of funds must be submitted promptly to the granting agency. The \$100.00 may be spent on administrative costs. Those administrative costs must be for that grant and within the grant period. Some grants may be exempt from the “Common Rule”.

Interest earned on SOF that are not grants but are set up by statute (examples include but may not be limited to Institute, GED, Bus Driver, Tech Hub) must be allocated to the SOF and expended for the same purpose. However, unlike grants, this interest does not have to be expended within any given period of time unless statute, regulations or contract state otherwise. The same laws that apply to the expenditure of the original SOF also apply to any expenditures of interest earned on that SOF.

CONDITION:

The ROE is not currently allocating interest earned from their commingled bank account to each SOF.

QUESTIONED COSTS:

The amount of questioned costs cannot be determined without determining an interest allocation plan, but would be less than \$5,000.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-03 – Continued

CONTEXT:

The ROE received various grant funds from State and federal sources, as well as, funds received for services provided by their Institute, GED, and Bus Driver Training funds.

EFFECT:

Interest earned on excess funds for a SOF that are not allocated to that particular SOF, may result in unallowable expenditures and noncompliance with State and federal statutes and regulations.

CAUSE:

The ROE was unaware of the requirement to allocate interest earned in their commingled cash account to each SOF.

RECOMMENDATION:

We recommend the Regional Office of Education No. 26 develop a plan to allocate interest earned on commingled funds to each SOF and follow the appropriate State and federal statutes and regulations.

MANAGEMENT'S RESPONSE:

The ROE is in the process of determining an interest allocation plan whereby we can eliminate the commingling of cost accounts.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-04 – Lack of authorized approval on timesheets

Federal Program Name – Special Education – Grants for Infants and Families with Disabilities

Project No. – 511G5167721

CFDA No. – 84.181

Passed Through – Illinois Department of Human Services

Federal Agency – U.S. Department of Education

CRITERIA/SPECIFIC REQUIREMENT:

Good business practice dictates that employee timesheets should be reviewed and approved by the employee's supervisor.

CONDITION:

The Regional Office of Education No. 26 did not require that all employees' timesheets be approved by their supervisor during the fiscal year. The Regional Office of Education No. 26 paid two employees \$11,352 during the fiscal year based off timesheets submitted by the applicable employee. One of the employees is hourly and timesheets are required for each day worked. The other employee is paid for 35 hours each week and anything over that amount is required to be tracked via timesheet. These timesheets were not reviewed and approved by their supervisor before submission to the payroll department.

QUESTIONED COSTS:

\$11,352

CONTEXT:

The Regional Office of Education No. 26 required supervisory review and approval of all other employees required to submit timesheets.

EFFECT:

Employee compensation is not supported by approved documentation which may result in incorrect compensation for services provided.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II – FINANCIAL STATEMENT FINDINGS
For Year Ended June 30, 2005

FINDING 05-04 – Continued

CAUSE:

The Regional Office of Education No. 26 believes this to be an oversight as all timesheets for other programs are reviewed and approved by the applicable supervisor.

RECOMMENDATION:

We recommend that the Regional Office of Education No. 26 require supervisor review and approval for all timesheets. Supervisors should indicate evidence of their review and approval by signing the timesheet.

MANAGEMENT’S RESPONSE:

Management has instructed all supervisors to review and approve all time sheets by signing these timesheets. This has been implemented.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION III – FEDERAL AWARD FINDINGS
For Year Ended June 30, 2005

INSTANCES OF NON COMPLIANCE:

1. **FINDING 05-02** – Lack of cost allocation plan (finding details on pages 15-16)
2. **FINDING 05-03** – Failure to allocate interest earned (finding details on pages 17-19)
3. **FINDING 05-04** – Lack of authorized approval on timesheets (finding details on pages 20-21)

REPORTABLE CONDITIONS:

1. **FINDING 05-02** – Lack of cost allocation plan (finding details on pages 15-16)
2. **FINDING 05-03** – Failure to allocate interest earned (finding details on pages 17-19)
3. **FINDING 05-04** – Lack of authorized approval on timesheets (finding details on pages 20-21)

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005

Corrective Action Plan

FINDING 05-01 – Controls over compliance with laws and regulations

CONDITION:

- A. The Hancock/McDonough County Regional Office of Education No. 26 did not submit the required reports to its county boards on or before January 1, 2005.
- B. The Hancock/McDonough County Regional Office of Education No. 26 is not examining all books, accounts, and vouchers of every school treasurer in its educational service area at least once each year. Regional Office officials noted that they believe this mandate is outdated and that they are satisfying the intent of the statute by other reviews they undertake. For example, the Regional Superintendent signs off on the Annual Financial Reports from the school districts in his region. In addition, the Regional Office gets a spreadsheet from the Illinois State Board of Education (ISBE) that outlines all of the school districts and their audit exceptions, if any. The Regional Office follows up with school districts having exceptions and gets the corrective action and forwards it to ISBE.

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

PLAN:

- A. On December 28, 2005, the Regional Superintendent did distribute to the County Board the information required by 105 ILCS 5/3-6. Information regarding the amount distributed to each of the school treasurers in the county does not apply because State Aid is wired directly to each district. Also, the county was informed as to the status of the Institute Fund.
- B. In 1953, there were 102 county superintendents and their duties were a lot less numerous than today. Few schools had budgets that exceeded \$500,000. Under such conditions, this law probably made sense. During the past 50+ years, various practices have evolved eliminating the need for this type of monitoring. In the 21st century, all schools have multi-million dollar budgets that are: 1.) audited annually by professionally certified outside auditing firms; 2.) audits are filed for public record and inspection; and 3.) this is tracked through the process by the procedures mentioned above in the section titled “Condition”. Requiring the ROE’s to do another review would be redundant, costly, and require the hiring of teams of new staff members in each ROE to carry out the task. The latter begs the question of which level(s) of government would bear the cost to carry out this task and how costly might that be to reinstitute the practice?

We are grateful for the OAG’s assistance in calling this to our collective attention because it provides the Regional Offices of Education with additional justification to request that

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005

Corrective Action Plan

FINDING 05-01 – Controls over compliance with laws and regulations

the General Assembly delete this and other obsolete sections from the statutes. We will seek a legislative solution to this and other obsolete passages.

ANTICIPATED DATE OF COMPLETION:

A. December, 28, 2005

B. As soon as possible

CONTACT PERSON:

Robert Baumann, Regional Superintendent

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005**

Corrective Action Plan

FINDING 05-02 – Lack of cost allocation plan

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities (b) Title I – Reading First Part B SEA Funds (c) Teaching American History

Project No. – (a) 511G5167721 (b) 05-4337-02 and 04-4337-02 (c) S215X010107

CFDA No. – (a) 84.181(b) 84.357A (c) 84.215X

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education (c) N/A

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

CONDITION:

The Regional Office of Education No. 26 does not maintain a cost allocation plan to allocate indirect costs as in accordance with OMB Circular A-87. The Regional Office of Education No. 26 invoices the various grants and programs it administers for central service activities, including support salaries and related benefits, accounting and secretarial services, and space rent based on the grants' budgeted costs, (rather than as part of a Cost Allocation Plan). Such salaries and benefits are allowable expenditures under OMB Circular A-87. However, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages is required to be documented in accordance with the provisions of OMB Circular A-87 or be included in the ROE's cost allocation plan. Rent costs are also an allowable expenditure, subject to limitations included in OMB Circular A-87.

PLAN:

The Regional Office has contacted a local certified public accounting firm (CPA) to address cost allocations.

ANTICIPATED DATE OF COMPLETION:

March 15, 2007

CONTACT PERSON:

Robert Baumann, Regional Superintendent

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005

Corrective Action Plan

FINDING 05-03 – Failure to allocate interest earned

Federal Program Name – (a) Special Education – Grants for Infants and Families with Disabilities (b) Temporary Assistance for Needy Families – Regional Safe Schools State Aid (c) Temporary Assistance for Needy Families – Regional Safe Schools (d) Social Services Block Grant (e) Even Start (f) Title I – Reading First Part B SEA Funds (g) Title IV – Safe and Drug Free Formula (h) Title IV – Community Service (i) McKinney Education for Homeless Children (j) McKinney Education for Homeless Children (k) Teaching American History (l) Standards Aligned Classroom Project (m) Title II – Teacher Quality

Project No. – (a) 511G5167721 (b) 05-3001-93 (c) 05-3696-00 and 04-3696-00 (d) 511G5167721 (e) 05-4335-00 (f) 05-4337-02 and 04-4337-02 (g) 05-4400-00 and 04-4400-00 (h) 04-4420-00 (i) 05-4920-00, 04-4920-00, and 04-4920-02 (j) 05-4920-00 and 04-4920-00 (k) S215X010107 (l) n/a (m) n/a

CFDA No. – (a) 84.181 (b) 93.558 (c) 93.558 (d) 93.667 (e) 84.213C (f) 84.357A (g) 84.186A (h) 84.184C (i) 84.196A (j) 84.196A (k) 84.215X (l) 84.298A (m) 84.367A

Passed Through – (a) Illinois Department of Human Services (b) Illinois State Board of Education (c) Illinois State Board of Education (d) Illinois Department of Human Services (e) Illinois State Board of Education (f) Illinois State Board of Education (g) Illinois State Board of Education (h) Illinois State Board of Education (i) Illinois State Board of Education (j) Adult Learning Resource Center (k) n/a (l) Adult Learning Resource Center (m) Adult Learning Resource Center

Federal Agency – (a) U.S. Department of Education (b) U.S. Department of Health and Human Services (c) U.S. Department of Health and Human Services (d) U.S. Department of Education (e) U.S. Department of Education (f) U.S. Department of Education (g) U.S. Department of Education (h) U.S. Department of Education (i) U.S. Department of Education (j) U.S. Department of Education (k) U.S. Department of Education (l) U.S. Department of Education (m) U.S. Department of Education

CONDITION:

The ROE is not currently allocating interest earned from their commingled bank account to each SOF.

PLAN:

The ROE is in the process of determining an interest allocation plan whereby we can eliminate the commingling of cost accounts.

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005**

Corrective Action Plan

FINDING 05-03 – Failure to allocate interest earned

ANTICIPATED DATE OF COMPLETION:

June 30, 2006

CONTACT PERSON:

Robert Baumann, Regional Superintendent

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
CORRECTIVE ACTION PLAN FOR CURRENT YEAR AUDIT FINDINGS
For Year Ended June 30, 2005**

Corrective Action Plan

FINDING 05-04 – Lack of authorized approval on timesheets

Federal Program Name – Special Education – Grants for Infants and Families with Disabilities

Project No. – 511G5167721

CFDA No. – 84.181

Passed Through – Illinois Department of Human Services

Federal Agency – U.S. Department of Education

CONDITION:

The Regional Office of Education No. 26 did not require that all employees' timesheets be approved by their supervisor during the fiscal year. The Regional Office of Education No. 26 paid two employees \$11,352 during the fiscal year based off timesheets submitted by the applicable employee. One of the employees is hourly and timesheets are required for each day worked. The other employee is paid for 35 hours each week and anything over that amount is required to be tracked via timesheet. These timesheets were not reviewed and approved by their supervisor before submission to the payroll department.

PLAN:

Management has instructed all supervisors to review and approve all time sheets by signing these timesheets. This has been implemented.

ANTICIPATED DATE OF COMPLETION:

November 2005

CONTACT PERSON:

Robert Baumann, Regional Superintendent

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For Year Ended June 30, 2005

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
04-01	Controls over compliance with laws and regulations	Partially Repeated.
04-02	No fiscal policies and procedures manual	Not Repeated.
04-03	Lack of cost allocation plan	Repeated.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The Hancock/McDonough Regional Office of Education No. 26 provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the Agency's financial statements, which follow.

The Hancock/McDonough Regional Office of Education No. 26 implemented new reporting standards for the past fiscal year 2004 with significant changes in content and structure. This report will include past year financial activity, along with fiscal year 2005 activity, making comparisons of the financial position and results of operations more meaningful.

2005 Financial Highlights

General Fund revenues decreased from \$663,820 in fiscal year 2004 to \$604,370 in fiscal year 2005, also the General Fund expenditures decreased from \$683,286 in fiscal year 2004 to \$615,609 in fiscal year 2005. The Regional Office experienced an increase in the General Fund balance from \$241,671 in fiscal year 2004 to \$279,807 in fiscal year 2005.

The decrease in General Fund revenues and the corresponding expenses is a result of funds not being received from local sources until fiscal year 2006. Additionally, some of the budgets for the local funds were reduced for fiscal year 2005. The increase in General Fund balance was attributable to a transfer from the Education Fund and a prior period adjustment to remove a liability for compensated absences from the fund financial statements.

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 the basic financial statements and provides an analytical overview of the Office's financial activities.
- The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Hancock/McDonough Regional Office of Education No. 26 as a whole and present an overall view of the Office's finances.
- The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the Office's operations in more detail than the government-wide statements by providing information about the most significant funds.
- Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.
- Supplementary Information further explains and supports the financial statements with a comparison of the Office's detailed information for each category of funds and also provides detailed information about the non-major funds.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Reporting the Hancock/McDonough Regional Office of Education No. 26 as a Whole

The Statement of Net Assets and the Statement of Activities

The government-wide statements report information about the Hancock/McDonough Regional Office of Education No. 26 as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Hancock/McDonough Regional Office of Education No. 26's assets and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

Fund Financial Statements

The fund financial statements provide detailed information about the Regional Office's funds, focusing on its most significant or "major" funds. Funds are accounting devices which allow the tracking of specific sources of funding and spending on particular programs. Some funds are required by State law. The Hancock/McDonough Regional Office of Education No. 26 established other funds to control and manage money for particular purposes.

The Office has three kinds of Fund classifications:

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

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

- 2) Proprietary funds account for services for which the Hancock/McDonough Regional Office of Education No. 26 charges fees under a cost-reimbursement method. These fees cover the costs of certain services and workshops it provides.

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

- 3) Fiduciary funds account for services for which the Hancock/McDonough Regional Office of Education No. 26 acts as fiscal agent for individuals and private or governmental organizations.

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

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of financial position. The Hancock/McDonough Regional Office of Education No. 26's net assets at the end of fiscal year 2004 totaled \$771,711. At the end of fiscal year 2005, the net assets were \$751,999. The analysis that follows provides a summary of the Office's net assets at June 30, 2005 and 2004.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

CONDENSED STATEMENT OF NET ASSETS
June 30, 2005 and 2004

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
ASSETS						
Current assets	\$ 768,802	\$ 910,167	\$ 363,223	\$ 535,046	\$ 1,132,025	\$ 1,445,213
Capital assets, net of depreciation	<u>41,596</u>	<u>38,870</u>	<u>46,894</u>	<u>48,694</u>	<u>88,490</u>	<u>87,564</u>
TOTAL ASSETS	<u>\$ 810,398</u>	<u>\$ 949,037</u>	<u>\$ 410,117</u>	<u>\$ 583,740</u>	<u>\$ 1,220,515</u>	<u>\$ 1,532,777</u>
LIABILITIES						
Current liabilities	\$ 124,131	\$ 251,170	\$ 326,591	\$ 496,922	\$ 450,722	\$ 748,092
Compensated absences	<u>17,794</u>	<u>12,974</u>	<u>-</u>	<u>-</u>	<u>17,794</u>	<u>12,974</u>
TOTAL LIABILITIES	<u>141,925</u>	<u>264,144</u>	<u>326,591</u>	<u>496,922</u>	<u>468,516</u>	<u>761,066</u>
NET ASSETS						
Investments in capital assets, net of related debt	41,596	38,870	46,894	48,694	88,490	87,564
Unrestricted	<u>626,877</u>	<u>646,023</u>	<u>36,632</u>	<u>38,124</u>	<u>663,509</u>	<u>684,147</u>
TOTAL NET ASSETS	<u>\$ 668,473</u>	<u>\$ 684,893</u>	<u>\$ 83,526</u>	<u>\$ 86,818</u>	<u>\$ 751,999</u>	<u>\$ 771,711</u>

The Regional Office of Education's net assets decreased by \$19,712 from Fiscal Year 2004 to Fiscal Year 2005. This decrease occurred primarily in the Governmental Funds due to a decrease in grant funding.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

The following analysis shows the changes in net assets for the years ended June 30, 2005 and 2004.

CHANGES IN NET ASSETS
For the Years Ended June 30, 2005 and 2004

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 15,311	\$ 15,641	\$ 767,311	\$ 749,775	\$ 782,622	\$ 765,416
Operating grants & contributions	2,022,025	1,991,078	-	-	2,022,025	1,991,078
General revenues:						
Local sources	392,542	462,237	-	-	392,542	462,237
On-behalf payments	246,956	250,854	-	-	246,956	250,854
Investment income	7,307	35,404	-	-	7,307	35,404
Total revenues	<u>2,684,141</u>	<u>2,755,214</u>	<u>767,311</u>	<u>749,775</u>	<u>3,451,452</u>	<u>3,504,989</u>
Expenses:						
Salaries	1,080,087	971,353	17,000	15,000	1,097,087	986,353
Benefits	268,920	267,088	2,820	2,339	271,740	269,427
Purchased services	783,443	964,420	17,771	18,987	801,214	983,407
Supplies and materials	81,266	114,386	3,950	4,881	85,216	119,267
Materials for resale	-	-	726,529	689,453	726,529	689,453
Depreciation	12,030	8,736	1,800	1,556	13,830	10,292
Capital outlay	3,752	121,471	733	280	4,485	121,751
Bad debts expense	23,964	-	-	-	23,964	-
Transfers-payments to other governmental units	200,143	3,454	-	-	200,143	3,454
On-behalf payments	<u>246,956</u>	<u>250,854</u>	<u>-</u>	<u>-</u>	<u>246,956</u>	<u>250,854</u>
Total expenses	<u>2,700,561</u>	<u>2,701,762</u>	<u>770,603</u>	<u>732,496</u>	<u>3,471,164</u>	<u>3,434,258</u>
Change in net assets	(16,420)	53,452	(3,292)	17,279	(19,712)	70,731
Net assets – beginning	<u>684,893</u>	<u>631,441</u>	<u>86,818</u>	<u>69,539</u>	<u>771,711</u>	<u>700,980</u>
Net assets – ending	<u>\$ 668,473</u>	<u>\$ 684,893</u>	<u>\$ 83,526</u>	<u>\$ 86,818</u>	<u>\$ 751,999</u>	<u>\$ 771,711</u>

**HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005**

Governmental Activities

Revenues for governmental activities were \$2,684,141 and expenses were \$2,700,561. In a difficult budget year, the Hancock/McDonough Regional Office of Education No. 26 was able to use some of the carryover balances to pay for the additional services offered to and needed by local school districts.

Business-Type Activities

Revenues for the Hancock/McDonough Regional Office of Education No. 26's business-type activities and expenses combined for a balance of \$(3,292).

Financial Analysis of the Regional Office of Education No. 26 Funds

As previously noted, the Hancock/McDonough Regional Office of Education No. 26 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Office's governmental funds reported combined fund balances of \$644,671, below last year's ending fund balance of \$658,997 (restated). The primary reason for the decrease in combined fund balances in fiscal year 2005 was due to a decrease in grant funding.

Governmental Fund Highlights

- In 2003, the Governor of the State of Illinois line item vetoed a portion of the state financial support for school services. This veto resulted in a reduction in dollars received. This reduction in funding continued for 2004-2005.
- County support for the Regional Office of Education No. 26 grew by approximately 3% to \$73,306.
- The Hancock/McDonough Regional Office of Education No. 26 was successful in obtaining additional funding for the McKinney Education for Homeless Children Grant.

Budgetary Highlights

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

Capital Assets

Capital Assets include office equipment, computers, software audio-visual equipment, office furniture, and a building. The Office maintains an inventory of capital assets, which have been accumulated over time. The increase for fiscal year 2005 was \$14,756 and came as a result of grant money and charged fees being used to purchase software and equipment. There were no dispositions during the fiscal year. The ending net asset balance for fiscal year 2005 is \$88,490 which is the total original cost of the capital assets less accumulated depreciation. More detailed information about capital assets is available in Note 3 of the Notes to the Financial Statements.

Economic Factors and Next Year's Budget

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

- The State of Illinois Foundation level has increased to \$5,164 per student.
- The interest rate on investments remains low and will impact interest earned.
- Several grants have remained near or at previous funding levels. In addition, the School Services funding levels have been reduced.
- County Board support of the Hancock/McDonough Regional Office of Education No. 26 grew by approximately 3% to \$73,306 for the period of time December 1, 2004 to November 30, 2005.
- The Regional Office of Education No. 26 increased their fingerprinting services.
- The number of students served by the Hancock/McDonough Regional Office of Education No. 26 is expected to increase.

Contacting the Regional Office's Financial Management

This financial report is designed to provide the Regional Office's citizens, taxpayers, clients, and other constituents with a general overview of its finances and to demonstrate the accountability for the money it receives. If the reader has questions concerning this report or needs additional financial information, please contact the Regional Superintendent of the Regional Office of Education No. 26, 130 S. Lafayette St., Suite 200, Macomb, IL 61455.

BASIC FINANCIAL STATEMENTS

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash	\$ 675,692	\$ 35,828	\$ 711,520
Inventory	-	326,889	326,889
Accounts receivable	34,308	-	34,308
Due from other governments	58,802	506	59,308
Total current assets	768,802	363,223	1,132,025
NONCURRENT ASSETS			
Capital assets, net of depreciation	41,596	46,894	88,490
TOTAL ASSETS	810,398	410,117	1,220,515
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	1,105	322,673	323,778
Due to other governments	2,340	-	2,340
Deferred revenue	120,686	3,918	124,604
Total current liabilities	124,131	326,591	450,722
NONCURRENT LIABILITIES			
Compensated absences	17,794	-	17,794
TOTAL LIABILITIES	141,925	326,591	468,516
NET ASSETS			
Investments in capital assets, net of related debt	41,596	46,894	88,490
Unrestricted	626,877	36,632	663,509
TOTAL NET ASSETS	\$ 668,473	\$ 83,526	\$ 751,999

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

FUNCTIONS/PROGRAMS	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants	Governmental Activities	Business-Type Activities	
PRIMARY GOVERNMENT						
Governmental Activities:						
Instructional Services:						
Salaries	\$ 1,080,087	\$ -	\$ 956,542	\$ (123,545)	\$ -	\$ (123,545)
Benefits	268,920	-	237,103	(31,817)	-	(31,817)
Purchased services	783,443	14,511	546,363	(222,569)	-	(222,569)
Supplies and materials	81,266	800	65,091	(15,375)	-	(15,375)
Depreciation	12,030	-	-	(12,030)	-	(12,030)
Capital outlay	3,752	-	18,492	14,740	-	14,740
Bad debts expense	23,964	-	-	(23,964)	-	(23,964)
Transfers - payments to other governmental units	200,143	-	198,434	(1,709)	-	(1,709)
Administrative:						
On-behalf payments	246,956	-	-	(246,956)	-	(246,956)
Total Governmental Activities	2,700,561	15,311	2,022,025	(663,225)	-	(663,225)
Business-type Activities:						
Other	770,603	767,311	-	-	(3,292)	(3,292)
Total Business-type Activities	770,603	767,311	-	-	(3,292)	(3,292)
Total Primary Government	\$ 3,471,164	\$ 782,622	\$ 2,022,025	(663,225)	(3,292)	(666,517)
General Revenues:						
				Local sources	-	392,542
				On-behalf payments	-	246,956
				Investment income	-	7,307
				Total General Revenues	-	646,805
				Change in net assets	(16,420)	(19,712)
				Net Assets - beginning	684,893	771,711
				Net Assets - ending	\$ 668,473	\$ 751,999

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2005

	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
ASSETS				
Cash	\$ 245,959	\$ 380,949	\$ 48,784	\$ 675,692
Accounts receivable	34,308	-	-	34,308
Due from other funds	645	95,782	-	96,427
Due from other governments	-	58,802	-	58,802
	<u>\$ 280,912</u>	<u>\$ 535,533</u>	<u>\$ 48,784</u>	<u>\$ 865,229</u>
TOTAL ASSETS				
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	\$ 1,105	\$ -	\$ -	\$ 1,105
Due to other funds	-	95,336	1,091	96,427
Due to other governments	-	2,340	-	2,340
Deferred revenue	-	98,168	22,518	120,686
	<u>1,105</u>	<u>195,844</u>	<u>23,609</u>	<u>220,558</u>
Total liabilities				
FUND BALANCE				
Unreserved				
General fund	279,807	-	-	279,807
Special revenue funds	-	339,689	25,175	364,864
	<u>279,807</u>	<u>339,689</u>	<u>25,175</u>	<u>644,671</u>
Total fund balance				
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 280,912</u>	<u>\$ 535,533</u>	<u>\$ 48,784</u>	<u>\$ 865,229</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO.26
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances - governmental funds	\$ 644,671
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.	41,596
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	<u>(17,794)</u>
Net assets of governmental activities	<u><u>\$ 668,473</u></u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
REVENUES				
State sources	\$ -	\$ 849,928	\$ 2,800	\$ 852,728
Federal sources	17,750	1,151,547	-	1,169,297
Local sources	371,165	29,139	14,856	415,160
On-behalf payments	215,455	31,501	-	246,956
Total revenues	<u>604,370</u>	<u>2,062,115</u>	<u>17,656</u>	<u>2,684,141</u>
EXPENDITURES				
Instructional services:				
Salaries	139,981	935,286	-	1,075,267
Benefits	35,529	233,391	-	268,920
Purchased services	211,058	549,290	23,095	783,443
Supplies and materials	13,586	66,489	1,191	81,266
Transfers - payments to other governmental units	-	200,143	-	200,143
Capital outlay	-	18,508	-	18,508
Bad debts expense	-	23,964	-	23,964
On-behalf payments	215,455	31,501	-	246,956
Total expenditures	<u>615,609</u>	<u>2,058,572</u>	<u>24,286</u>	<u>2,698,467</u>
Revenues over (under) expenditures	<u>(11,239)</u>	<u>3,543</u>	<u>(6,630)</u>	<u>(14,326)</u>
Other financing sources (uses)				
Transfers in	49,375	2,445	-	51,820
Transfers out	-	(51,820)	-	(51,820)
Total other financing sources	<u>49,375</u>	<u>(49,375)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>38,136</u>	<u>(45,832)</u>	<u>(6,630)</u>	<u>(14,326)</u>
FUND BALANCE, BEGINNING OF YEAR	228,697	385,521	31,805	646,023
PRIOR PERIOD ADJUSTMENT	12,974	-	-	12,974
FUND BALANCE, BEGINNING OF YEAR (RESTATED)	<u>241,671</u>	<u>385,521</u>	<u>31,805</u>	<u>658,997</u>
FUND BALANCE, END OF YEAR	<u>\$ 279,807</u>	<u>\$ 339,689</u>	<u>\$ 25,175</u>	<u>\$ 644,671</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Net change in fund balances \$ (14,326)

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	\$ 14,756	
Depreciation	<u>(12,030)</u>	2,726

Certain expenses in the Statement of Activities do not require the
use of current financial resources and, therefore, are not
reported as expenditures in governmental funds

(4,820)

Change in net assets of governmental activities

\$ (16,420)

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2005

	Business-type Activities Enterprise Funds		Total
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	
Assets			
Current assets			
Cash and cash equivalents	\$ 14,584	\$ 21,244	\$ 35,828
Due from other governments	-	506	506
Inventory	326,889	-	326,889
Total current assets	<u>341,473</u>	<u>21,750</u>	<u>363,223</u>
Noncurrent assets			
Equipment, net	1,281	613	1,894
Building, net	45,000	-	45,000
Total noncurrent assets	<u>46,281</u>	<u>613</u>	<u>46,894</u>
Total Assets	<u>387,754</u>	<u>22,363</u>	<u>410,117</u>
Liabilities and Net Assets			
Liabilities			
Accounts payable	322,673	-	322,673
Deferred revenue	3,918	-	3,918
Total liabilities	<u>326,591</u>	<u>-</u>	<u>326,591</u>
Net Assets			
Invested in capital assets, net of related debt	46,281	613	46,894
Unrestricted	14,882	21,750	36,632
Total Net Assets	<u>\$ 61,163</u>	<u>\$ 22,363</u>	<u>\$ 83,526</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2005

	Business-type Activities Enterprise Funds		Totals
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	
Operating Revenues			
Charges for services	\$ 757,766	\$ 9,545	\$ 767,311
Operating Expenses			
Salaries	17,000	-	17,000
Benefits	2,820	-	2,820
Purchased services	13,576	4,195	17,771
Supplies and materials	1,499	2,451	3,950
Materials for resale	726,529	-	726,529
Capital outlay	-	733	733
Depreciation	1,625	175	1,800
Total operating expenses	<u>763,049</u>	<u>7,554</u>	<u>770,603</u>
Change in Net Assets	(5,283)	1,991	(3,292)
Net Assets, Beginning of year	<u>66,446</u>	<u>20,372</u>	<u>86,818</u>
Net Assets, End of year	<u>\$ 61,163</u>	<u>\$ 22,363</u>	<u>\$ 83,526</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

	Business-type Activities		Totals
	Enterprise Funds		
	Western Area Purchasing Co-Op	Nonmajor Enterprise Funds	
Cash Flows from Operating Activities:			
Receipts from customers	\$ 757,766	\$ 9,039	\$ 766,805
Payments to suppliers and providers of goods and services	(743,804)	(7,379)	(751,183)
Payments to employees	(19,820)	-	(19,820)
Net cash provided by (used for) operating activities	<u>(5,858)</u>	<u>1,660</u>	<u>(4,198)</u>
 Net increase (decrease) in cash and cash equivalents	 (5,858)	 1,660	 (4,198)
 Cash and cash equivalents - Beginning of year	 <u>20,442</u>	 <u>19,584</u>	 <u>40,026</u>
 Cash and cash equivalents - End of year	 <u>\$ 14,584</u>	 <u>\$ 21,244</u>	 <u>\$ 35,828</u>
 Reconciliation of operating income to net cash from operating activities:			
Operating income (loss)	\$ (5,283)	\$ 1,991	\$ (3,292)
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	1,625	175	1,800
(Increase)/decrease in assets:			
Inventory	168,131	-	168,131
Due from other governments	-	(506)	(506)
Increase/(decrease) in liabilities:			
Accounts payable	(169,488)	-	(169,488)
Deferred revenue	(843)	-	(843)
 Net cash provided by (used for) operating activities	 <u>\$ (5,858)</u>	 <u>\$ 1,660</u>	 <u>\$ (4,198)</u>

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005

	Agency Funds
ASSETS	
Cash	\$ 3,473
Due from other governments	483
TOTAL ASSETS	\$ 3,956
 LIABILITIES	
Due to other governments	\$ 3,956
TOTAL LIABILITIES	\$ 3,956

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Introduction

The accounting policies of Hancock/McDonough Regional Office of Education No. 26 (ROE) substantially comply with the rules prescribed by the Illinois State Board of Education (ISBE). These accounting policies conform to Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board (GASB).

Reporting Entity

Hancock/McDonough Regional Office of Education No. 26 was created by Illinois Public Act 88-89, as amended. The ROE operates under the School Code (Articles 3 and 3A of *Illinois Compiled Statutes*, Chapter 105). The ROE encompasses Hancock and McDonough Counties. The voters of Hancock and McDonough Counties elect the Regional Superintendent of Schools. The Regional Superintendent of Schools (Superintendent) serves as chief administrative officer of the ROE and is elected pursuant to Article 3, *Illinois Compiled Statutes*, Chapter 105. The principal financial duty of the Superintendent is to receive and distribute monies due to school districts from general state aid, state categorical grants, and various other sources.

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

These are the only activities considered to be part of (controlled by or dependent on) the ROE, as determined by the application of the criteria set forth in Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*. The ROE has developed criteria to determine whether outside agencies with activities which benefit the citizens of the region, including joint agreements which serve pupils from numerous school districts, should be included within its financial reporting entity. The criteria include, but are not limited to, whether the ROE exercises oversight responsibility (which includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters), scope of public service, and special financing relationships. The blended component units described below are included in the ROE's reporting entity because of the significance of their operational or financial relationships with the ROE.

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Reporting Entity - continued

- *Video Co-Op* is a joint agreement administered by the ROE, which maintains an inventory of videocassette tapes. The tapes and tape players are available for check-out by each of the school districts serviced by Regional Office of Education No. 26. The Video Co-Op is a discretionary activity fund.
- *Hancock/McDonough Alternative School and Alternative Training* – Used to account for State revenues and expenditures paid to provide an alternative education program in Hancock and McDonough Counties.
- *Gifted Co-Op Fund* – Used to account for a joint agreement for providing gifted instruction and coordination to school districts within ROE #26's region.

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

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government. The effect of interfund activity has been removed from these statements. Governmental activities are supported by intergovernmental revenues and are reported separate from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

The ROE reports the following major governmental funds:

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

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

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

- *Early Childhood Block Grant* – Used to account for State grant proceeds for the early childhood education block grant.
- *Even Start* – Used to account for federal grant proceeds for the Even Start project.
- *ROE/ISC School Improvement* – Used to account for State grant proceeds for the school improvement program.
- *Title IV – Community Service* – Used to account for federal grant proceeds for the community service initiative under Title IV of the Elementary and Secondary Education Act.
- *Novel* – Used to account for local fees associated with the ROE's Novel project.
- *Safe to Learn* – Used to account for ISBE and local funds included in the ROE's Safe to Learn Grant program.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

- *Child and Family Connections* – Used to account for a contractual agreement with the Illinois Department of Human Services to provide a caseworker for the purpose of monitoring teen parents receiving Aid to Dependent Children.
- *Hearing Aid Screening* – Used to account for a hearing screenings program funded through the Illinois Department of Public Aid.
- *Title I – Reading First Part B SEA Funds* – Used to account for federal grant proceeds used in the ROE’s project to ensure that every student can read at grade level or above by the end of third grade.
- *Reading Improvement Block Grant* – Used to update and re-do the Principal's Administrator Academy Middle School reading materials and to perform trainings as a pilot for principals in west central Illinois.
- *Pioneer Grant* – Used to promote mathematics and science in the Macomb Area.
- *Truants Alternative Optional Education* – Used to account for the cost of providing tutoring services and to encourage students to stay in school.
- *Regional Safe Schools* – Used to account for an alternative schools program of centralized instructional programs for students with specialized needs.
- *Title IV – Safe and Drug Free Formula* – Used to account for a regional, multi-district program on drug and alcohol abuser education and prevention for students throughout all grade levels (Pre-K thru 12).
- *McKinney Education for Homeless Children* – Used to account for the McKinney Education for Homeless Grant, a program to facilitate the enrollment, attendance and success of homeless youths in school.
- *Hancock/McDonough Alternative Schools* – Used to account for State revenues and expenditures paid to provide an alternative education program in Hancock and McDonough Counties.
- *ROE Technology Maintenance* – Used to account for revenues and expenditures of the ISBE Technology Maintenance grant program.
- *Family Literacy* – Used to provide literacy services to parents and children during the summer when many traditional education programs close.
- *Standards Aligned Classroom* – Used to account for the ISBE Standards Aligned Classroom grant program.
- *Truants Alternative Optional Education Program (TAOEP) Training* – Used to account for State grant proceeds expended to train individuals in Truant Alternative Education.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

- *Teen Court* – Used to account for Department of Human Services funding of a project designed to help teens better understand the court system in which teens act as the jury in certain legal cases.
- *Gifted Co-Op* – Used to account for a joint agreement for providing gifted instruction and coordination to school districts within ROE #26's region.
- *Teaching American History Grant* – Used to account for federal grant proceeds received in the ROE's project to conduct nationally significant programs to improve the quality of education, assist all students to meet challenging State content standards, and contribute to the achievement of elementary and secondary students.
- *Adult Learning Resource Center* – Used to account for the ROE's subcontract with Schaumburg CUSD #54's McKinney Education for Homeless Grant.

Additionally, the ROE reports the following fund types:

Governmental

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

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

Proprietary

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

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

Additionally, the ROE reports the following nonmajor Proprietary Funds:

- *Video Co-Op* is a joint agreement administered by the ROE, which maintains an inventory of videocassette tapes. The tapes and tape players are available for check-out by each of the school districts serviced by Regional Office of Education No. 26. As noted previously, the VIDEO Co-Op is a discretionary activity fund.
- *Workshop Fund* is used to account for all activity for workshops managed by the ROE.

Fiduciary

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

- *Distributive Fund* – The resources in this fund are received by and passed through the ROE to their owners. Entities whose resources are received by and passed through the distributive fund include but are not limited to: school districts, joint agreements, day care centers, non-public schools, Education for Employment Regional Delivery Systems and various other organizations as applicable.
- *State Superintendent Fund* – Accounts for funds received from people applying for teaching certificates. The funds are received by the ROE which, in turn, sends them to the State Superintendent of Education on the individual's behalf. Since the State Superintendent of Education does not accept personal checks from the individuals, the ROE accepts their checks and then remits a check to the State on their behalf.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

- *Regional Board of School Trustees Fund* – Accounts for the marketing and disposal of school properties belonging to local education agencies and for expenses related to detachment petitions.
- *Area III Superintendents Fund* – Accounts for all the Area III regional superintendents. Membership fees are used to provide meetings and seminars for disseminating current information on administration issues.

Budgetary Data

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

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

Budgets for the other funds of the ROE are not legally required and have not been prepared. Accordingly, no actual to budget comparison is included in the basic financial statements. The actual to budget comparisons are prepared on the modified accrual basis of accounting. The ROE is required to report, in its financial statements, payments made by the State of Illinois to the Teachers' Retirement System. These “on-behalf” payments of \$31,501, which were not required to be budgeted, are recorded in the Education Fund. These payments were recorded as both revenues and expenditures in accordance with GASB Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*.

Cash and Cash Equivalents

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Inventories

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

Due From Other Governments

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

Capital Assets

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

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

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

Assets	Years
Software	3
Furniture and equipment	5
Buildings	40

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Compensated Absences

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

Fund Equity

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

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

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

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

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

Use of Estimates

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

New Accounting Pronouncement

The GASB has issued Statement No. 40, *Deposit and Investment Risk Disclosures*, effective for the ROE fiscal year beginning July 1, 2004. GASB Statement No. 40 establishes additional disclosure requirements addressing common risks of investments. The Statement has no effect on the ROE's net assets or changes in net assets.

2. DEPOSITS AND INVESTMENTS

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

Bank Deposits

At June 30, 2005, the government-wide and agency fund's carrying amounts of the ROE's various bank deposits totaled \$711,520 and \$3,473, respectively. The bank balances totaled \$1,069,292. Included in the bank balance is \$28,522 invested in the Illinois Funds. The ROE has obtained sufficient collateral for any excess cash on deposit.

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

Investments

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

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

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

2. DEPOSITS AND INVESTMENTS – Continued

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

3. CAPITAL ASSETS

Governmental Activities

Capital asset activity for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Software and equipment	\$ 60,851	\$ 14,756	\$ -	\$ 75,607
Less accumulated depreciation for:				
Software and equipment	<u>21,981</u>	<u>12,030</u>	<u>-</u>	<u>34,011</u>
Total capital assets, net of accumulated depreciation	<u>\$ 38,870</u>	<u>\$ 2,726</u>	<u>\$ -</u>	<u>\$ 41,596</u>

Depreciation was charged to the Instructional Services activity.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

3. CAPITAL ASSETS – Continued

Business-type Activities

Capital asset activity for the year ended June 30, 2005 is as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Building	\$ 50,000	\$ -	\$ -	\$ 50,000
Software and equipment	2,750	-	-	2,750
Less accumulated depreciation for:				
Building	3,750	1,250	-	5,000
Software and equipment	<u>306</u>	<u>550</u>	<u>-</u>	<u>856</u>
Total capital assets, net of accumulated depreciation	<u>\$ 48,694</u>	<u>\$ (1,800)</u>	<u>\$ -</u>	<u>\$ 46,894</u>

Depreciation was charged to the Other activity.

4. LONG-TERM DEBT

The ROE records a liability associated with compensated absences. During the fiscal year, the amount in this account increased by \$4,820. At June 30, 2005, the balance in this account was \$17,794.

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Compensated absences	<u>\$ 12,974</u>	<u>\$ 4,820</u>	<u>\$ -</u>	<u>\$ 17,794</u>

5. EMPLOYEE'S RETIREMENT PLANS

Illinois Municipal Retirement Fund

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5. EMPLOYEE’S RETIREMENT PLANS – Continued

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

Employees participating in IMRF are required to contribute 4.50 percent of their annual covered salary. The member rate is established by State statute. The ROE is required to contribute at an actuarially determined rate. The employer rate for calendar year 2004 was 6.01 percent of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2004 was 5 years.

For December 31, 2004, the ROE's annual pension cost of \$35,712 was equal to the ROE’s required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50 percent investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00 percent a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4 to 11.6 percent per year depending on age and service, attributable to seniority/merit, and (d) post-retirement benefit increases of 3 percent annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15 percent corridor. The assumptions used for the 2004 actuarial valuation were based on the 1999-2001 experience study.

Trend Information – IMRF

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contribute	Net Pension Obligation
12/31/04	\$ 35,712	100%	\$0
12/31/03	29,447	100	0
12/31/02	28,653	100	0

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5. EMPLOYEE'S RETIREMENT PLANS – Continued

Digest of Changes

Assumption

The actuarial assumptions used to determine the actuarial accrued liability for 2004 are based on the 1999-2001 Experience Study.

The principal changes were:

- Fewer members are expected to take refunds early in their career.
- For regular members, fewer normal and early retirements are expected to occur.

Illinois Teachers' Retirement System (TRS)

The ROE participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration. TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate through June 30, 2005 was 9 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer.

In addition, virtually all members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The member THIS Fund contribution was 0.5 percent during the year ended June 30, 2005, and the member THIS Fund health insurance contribution was 0.75 percent.

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5. EMPLOYEE'S RETIREMENT PLANS – Continued

- **On Behalf Contributions**

The State of Illinois makes employer pension contributions on behalf of the ROE. For the year ended June 30, 2005, State of Illinois contributions were based on 11.76 percent of creditable earnings, and the ROE recognized revenue and expenditures of \$50,435 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2004 and June 30, 2003, the State of Illinois contribution rates as percentages of creditable earnings were 13.98 percent (\$57,811) and 13.01 percent (\$20,946), respectively.

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

- **2.2 Formula Contributions**

For the years ended June 30, 2005, and June 30, 2004, employers contributed .58 percent of creditable earnings for the 2.2 formula change. Contributions for the years ending June 30, 2005, and June 30, 2004 were \$1,554 and \$1,575, respectively. For the year ended June 30, 2003, part of the employer's 2.2 formula contribution (0.58 percent of pay) was reduced as a result of a new employer THIS Fund contribution for retiree health insurance (0.4 percent of pay). The remaining 0.18 percent was submitted to TRS. Contributions for the year ended June 30, 2003 were \$487.

- **Federal and Trust Fund Contributions**

When TRS members are paid from federal and trust funds administered by the ROE, there is a statutory requirement for the ROE to pay an employer pension contribution from those funds. For the three years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2005, salaries totaling \$54,725 were paid from federal and trust funds that required employer contributions of \$5,746. For the years ended June 30, 2004, and June 30, 2003, required ROE contributions were \$5,687 and \$3,375, respectively.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5. EMPLOYEE'S RETIREMENT PLANS – Continued

- **Early Retirement Option**

The ROE is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option. The payments vary depending on the age and salary of the member. No member or employer contributions are required if the member has 34 years of service. The maximum employer payment of 100 percent of the member's highest salary used in the calculation of final average salary is required if the member is 55 years old. For the year ended June 30, 2005, the ROE paid \$-0- for employer contributions under the Early Retirement Option. For the years ended June 30, 2004 and June 30, 2003, the ROE made no payments under the Early Retirement Option.

Public Act 94-0004, which was signed into law on June 1, 2005, contained a number of provisions affecting employer and active member contributions. Most will not be effective or impact financial statements until the year ending June 30, 2006. The changes are summarized below:

- **Active Member Contributions**

The active member contribution rate will increase from the current 9 percent of creditable earnings to 9.4 percent beginning July 1, 2005. The increase is to help cover the cost of the new ERO program and will be refunded if the member does not retire under ERO.

- **State/Federal Contributions**

Under a policy adopted by the Board of Trustees before Public Act 94-0004 was enacted, the employer contribution rate for employees paid from federal funds will be the same as the rate paid by the State. Under Public Act 94-0004, the State contribution rate in fiscal year 2006 was reduced to 7.06 percent of pay. Therefore, the employer contribution rate for employees paid from federal funds in fiscal year 2006 will be 7.06 percent, a decrease from the current 10.50 percent.

- **New Employer Contributions**

- Salary increases over 6 percent – If employers grant salary increases in excess of 6 percent that are used in final average salary calculations, the employer will make a lump-sum contribution to TRS to cover the cost of the portion of the benefit due to salary increases over 6 percent. Public Act 94-0004 exempts salary increases granted under contracts and collective bargaining agreements in effect on June 1, 2005.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

5. EMPLOYEE'S RETIREMENT PLANS – Continued

- Sick leave in excess of normal allotment – If employers grant sick leave near retirement in excess of the normal annual allotment and that sick leave is counted as service credit, the employer will make a lump-sum contribution to TRS. The Act exempts sick leave granted under contracts and collective bargaining agreements in effect on June 1, 2005.

- **Early Retirement Option**

In addition to changes described above, the following changes were made to ERO:

- Both active member and employer ERO contribution rates are increased. For employers, the maximum contribution increases from the current 100 percent of the members highest salary used in the calculation of the final average salary to 117.5 percent.
- The waiver of member and employer ERO contributions when the member has 34 years of service ended with the program that expired on June 30, 2005.
- A “Pipeline ERO” program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007.
- Public Act 94-0004 provides for a review of the member and employer ERO contributions every five years to ensure that the program is revenue neutral.

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, 2004. The report for the year ended June 30, 2005 is expected to be available in late 2005. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, Illinois 62794-9253. The most current report is also available on the TRS Web site at www.trs.state.il.us.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

6. DUE FROM OTHER GOVERNMENTS

A summary of amounts due from other governments at June 30, 2005 follows:

Education Fund:	
Illinois State Board of Education	\$ 13,134
Illinois Office of the Secretary of State	1,301
Illinois Department of Human Services	2,622
U.S. Department of Education	37,259
Adult Learning Resource Center	<u>4,486</u>
Total Education Fund	<u>58,802</u>
Enterprise Fund:	
Hamilton Community Unit School District #328	<u>506</u>
Agency Funds:	
Illinois State Board of Education	<u>483</u>
Total	<u>\$ 59,791</u>

7. DUE TO OTHER GOVERNMENTS

A summary of amounts due to other governments from agency and special revenue funds at June 30, 2005 follows:

Education Fund:	
School districts	<u>\$ 2,340</u>
Agency Funds:	
Illinois State Board of Education	483
State Superintendent Fund	1,190
Regional Board of School Trustees	1,914
Area III Superintendents	<u>369</u>
Total Agency Funds	<u>3,956</u>
Total	<u>\$ 6,296</u>

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

8. INTERFUND RECEIVABLES AND PAYABLES

Funds periodically borrow from other funds to cover temporary cash shortages. These loans are usually paid in full within a few months. No interest is charged on the loans outstanding. Following is a summary of the outstanding amounts due from (to) other funds as of June 30, 2005:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 645	\$ -
Education Fund	95,782	95,336
Nonmajor Special Revenue Fund	-	1,091
Total	\$ 96,427	\$ 96,427

9. RISK MANAGEMENT

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

10. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

The following funds had a deficit fund balance at June 30, 2005:

Education Fund:	
Hearing Aid Screening	\$ 34,026
General Education Development Fund	1,091

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

11. INTERFUND TRANSFERS

During the year ended June 30, 2005, the following interfund transfers occurred:

	Transfers	
	In	Out
General Fund:		
Regional Programs Fund	\$ 49,375	\$ -
Education Fund:		
Title IV – Community Service Hancock/McDonough	2,445	-
Alternative Schools	-	2,445
Standards Aligned Classroom	-	49,375
Total	\$ 51,820	\$ 51,820

12. ON-BEHALF SALARIES AND BENEFITS PAYMENTS

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

Regional Superintendent salary	\$ 84,737
Regional Superintendent benefits (Includes State paid insurance)	17,107
Assistant Regional Superintendent salary	76,263
Assistant Regional Superintendent benefits (Includes State paid insurance)	18,414
Total	\$ 196,521

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

These awards are included in the financial statements of the General Revenue Fund as on-behalf payments. In addition to the \$196,521 above, Special Revenue Fund on-behalf payments include \$50,435 for TRS contributions (which includes \$31,501 in the Education Fund) for other employees for a total of \$246,956 for the year ended June 30, 2005.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

13. LEASE OBLIGATIONS

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

2006	\$ <u>750</u>
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Rent expense for the year ended June 30, 2005 was \$48,600.

14. PRIOR PERIOD ADJUSTMENT

The beginning fund balance has been restated by \$12,974 as of July 1, 2004 to correct the incorrect reporting of compensated absences in the fund financial statements as in accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

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

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
ILLINOIS MUNICIPAL RETIREMENT FUND - REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
June 30, 2005

(See Accompanying Independent Auditor's Report)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)- Entry (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2004	\$ 658,690	\$ 567,110	\$ (91,580)	116.15%	\$ 594,213	(15.41)%
12/31/2003	625,249	519,504	(105,745)	120.35%	592,494	(17.85)%
12/31/2002	590,537	502,115	(88,422)	117.61%	562,919	(15.71)%
12/31/2001	531,940	426,206	(105,734)	124.81%	571,319	(18.51)%
12/31/2000	440,591	339,186	(101,405)	129.90%	541,847	(18.71)%
12/31/1999	356,317	260,583	(95,734)	136.74%	467,554	(20.48)%

On a market basis, the actuarial value of assets as of December 31, 2004 is \$660,071. On a market basis, the funded ratio would be 116.39%.

SUPPLEMENTAL INFORMATION

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26

**GENERAL FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005**

	<u>County Funds</u>	<u>Interest Fund</u>	<u>Regional Programs Fund</u>	<u>Office Administration Fund</u>	<u>Directory Fund</u>	<u>Totals</u>
Assets						
Cash and cash equivalents	\$ 16,294	\$ 43,134	\$ 178,833	\$ 10	\$ 7,688	\$ 245,959
Accounts receivable	-	-	34,308	-	-	34,308
Due from other funds	-	-	645	-	-	645
Total Assets	\$ 16,294	\$ 43,134	\$ 213,786	\$ 10	\$ 7,688	\$ 280,912
Liabilities and Fund Balance						
Liabilities						
Accounts payable	\$ -	\$ -	\$ 1,105	\$ -	\$ -	\$ 1,105
Total Liabilities	-	-	1,105	-	-	1,105
Fund Balance						
Fund balance - unreserved	16,294	43,134	212,681	10	7,688	279,807
Total Liabilities and Fund Balance	\$ 16,294	\$ 43,134	\$ 213,786	\$ 10	\$ 7,688	\$ 280,912

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26

**GENERAL FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2005**

	County Funds	Interest Fund	Regional Programs Fund	Office Administration Fund	Directory Fund	Totals
Revenues						
Federal sources	\$ -	\$ -	\$ 17,750	\$ -	\$ -	\$ 17,750
Local sources	73,306	-	290,973	6,431	455	371,165
On-behalf payments	-	-	215,455	-	-	215,455
Total Revenues	73,306	-	524,178	6,431	455	604,370
Expenditures						
Salaries	46,243	-	93,738	-	-	139,981
Benefits	16,664	-	18,865	-	-	35,529
Purchased services	3,817	908	206,333	-	-	211,058
Supplies and materials	6,491	-	5	7,000	90	13,586
On-behalf payments	-	-	215,455	-	-	215,455
Total Expenditures	73,215	908	534,396	7,000	90	615,609
Revenues over/(under) expenditures	91	(908)	(10,218)	(569)	365	(11,239)
Other Financing Sources/(Uses)						
Transfers in	-	-	49,375	-	-	49,375
	-	-	49,375	-	-	49,375
Net change in fund balances	91	(908)	39,157	(569)	365	38,136
Fund Balance, Beginning of year	3,229	44,042	173,524	579	7,323	228,697
Prior Period Adjustment	12,974	-	-	-	-	12,974
Fund Balance, Beginning of year (restated)	16,203	44,042	173,524	579	7,323	241,671
Fund Balance, End of year	\$ 16,294	\$ 43,134	\$ 212,681	\$ 10	\$ 7,688	\$ 279,807

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005

	Early Childhood Block Grant	Even Start	ROE/ISC School Improvement	Title IV - Community Service	Novel
Assets					
Cash and cash equivalents	\$ 16,621	\$ 3,570	\$ -	\$ -	\$ 29,149
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	-	-
Total Assets	\$ 16,621	\$ 3,570	\$ -	\$ -	\$ 29,149
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Due to other governments	-	-	-	-	-
Deferred revenue	16,621	2,410	-	-	-
Total Liabilities	16,621	2,410	-	-	-
Fund Balance (Deficit)					
Unreserved					
Designated	-	1,160	-	-	29,149
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	-	1,160	-	-	29,149
Total Liabilities and Fund Balance (Deficit)	\$ 16,621	\$ 3,570	\$ -	\$ -	\$ 29,149

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005

	Safe to Learn	Child & Family Connections	Hearing Aid Screening	Title I - Reading First Part B SEA Funds	Reading Improvement Block Grant
Assets					
Cash and cash equivalents	\$ 2,340	\$ 15,395	\$ -	\$ -	\$ 646
Due from other funds	-	-	-	-	-
Due from other governments	-	-	-	13,134	-
Total Assets	\$ 2,340	\$ 15,395	\$ -	\$ 13,134	\$ 646
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ -	\$ -	\$ 34,026	\$ 13,134	\$ 645
Due to other governments	2,340	-	-	-	-
Deferred revenue	-	15,059	-	-	-
Total Liabilities	2,340	15,059	34,026	13,134	645
Fund Balance (Deficit)					
Unreserved					
Designated	-	336	(34,026)	-	1
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	-	336	(34,026)	-	1
Total Liabilities and Fund Balance (Deficit)	\$ 2,340	\$ 15,395	\$ -	\$ 13,134	\$ 646

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005

	Pioneer Grant	Truants Alternative Optional Education	Regional Safe Schools	Title IV - Safe and Drug Free Formula	McKinney Education for Homeless Children
Assets					
Cash and cash equivalents	\$ 21,250	\$ 11,373	\$ 5,380	\$ 6,709	\$ 851
Due from other funds	-	-	-	-	2,276
Due from other governments	-	-	-	-	-
Total Assets	\$ 21,250	\$ 11,373	\$ 5,380	\$ 6,709	\$ 3,127
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 2,276
Due to other governments	-	-	-	-	-
Deferred revenue	21,250	11,373	5,380	5,473	851
Total Liabilities	21,250	11,373	5,380	5,473	3,127
Fund Balance (Deficit)					
Unreserved					
Designated	-	-	-	1,236	-
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	-	-	-	1,236	-
Total Liabilities and Fund Balance (Deficit)	\$ 21,250	\$ 11,373	\$ 5,380	\$ 6,709	\$ 3,127

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005

	Hancock/ McDonough Alternative Schools	ROE Technology Maintenance	Family Literacy	Standards Aligned Classroom	Truants Alternative Optional Education Program Training
Assets					
Cash and cash equivalents	\$ 240,780	\$ 3,416	\$ -	\$ -	\$ 19,801
Due from other funds	93,506	-	-	-	-
Due from other governments	-	-	1,301	-	-
Total Assets	\$ 334,286	\$ 3,416	\$ 1,301	\$ -	\$ 19,801
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ 2,275	\$ -	\$ 1,301	\$ -	\$ -
Due to other governments	-	-	-	-	-
Deferred revenue	-	-	-	-	19,751
Total Liabilities	2,275	-	1,301	-	19,751
Fund Balance (Deficit)					
Unreserved					
Designated	332,011	3,416	-	-	50
Undesignated	-	-	-	-	-
Total Fund Balance (Deficit)	332,011	3,416	-	-	50
Total Liabilities and Fund Balance (Deficit)	\$ 334,286	\$ 3,416	\$ 1,301	\$ -	\$ 19,801

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
June 30, 2005

	Teen Court	Gifted Co-Op	Teaching American History Grant	Adult Learning Resource Center	Totals
Assets					
Cash and cash equivalents	\$ -	\$ 3,668	\$ -	\$ -	\$ 380,949
Due from other funds	-	-	-	-	95,782
Due from other governments	2,622	-	37,259	4,486	58,802
Total Assets	\$ 2,622	\$ 3,668	\$ 37,259	\$ 4,486	\$ 535,533
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ 2,622	\$ -	\$ 37,259	\$ 1,798	\$ 95,336
Due to other governments	-	-	-	-	2,340
Deferred revenue	-	-	-	-	98,168
Total Liabilities	2,622	-	37,259	1,798	195,844
Fund Balance (Deficit)					
Unreserved					
Designated	-	-	-	2,688	336,021
Undesignated	-	3,668	-	-	3,668
Total Fund Balance (Deficit)	-	3,668	-	2,688	339,689
Total Liabilities and Fund Balance (Deficit)	\$ 2,622	\$ 3,668	\$ 37,259	\$ 4,486	\$ 535,533

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Early Childhood Block Grant	Even Start	ROE/ISC School Improvement	Title IV - Community Service	Novel
Revenues					
State sources	\$ 189,894	\$ -	\$ -	\$ -	\$ -
Federal sources	-	182,591	-	319	-
Local sources	-	1,160	-	-	16,899
On-behalf payments	-	-	-	-	-
Total Revenues	<u>189,894</u>	<u>183,751</u>	<u>-</u>	<u>319</u>	<u>16,899</u>
Expenditures					
Salaries	104,399	101,884	-	-	-
Benefits	24,905	29,876	-	29	-
Purchased services	43,480	41,485	-	162	12,129
Supplies and materials	12,234	6,685	-	2,573	-
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	4,876	2,661	-	-	-
Bad debts expense	-	-	-	-	-
On-behalf payments	-	-	-	-	-
Total Expenditures	<u>189,894</u>	<u>182,591</u>	<u>-</u>	<u>2,764</u>	<u>12,129</u>
Revenues over (under) expenditures	<u>-</u>	<u>1,160</u>	<u>-</u>	<u>(2,445)</u>	<u>4,770</u>
Other Financing Sources/(Uses)					
Transfers in	-	-	-	2,445	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,445</u>	<u>-</u>
Net change in fund balances	-	1,160	-	-	4,770
Fund Balance (Deficit), Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,379</u>
Fund Balance (Deficit), End of year	<u>\$ -</u>	<u>\$ 1,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,149</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Safe to Learn	Child & Family Connections	Hearing Aid Screening	Title I - Reading First Part B SEA Funds	Reading Improvement Block Grant
Revenues					
State sources	\$ -	\$ 7,694	\$ -	\$ -	\$ 56
Federal sources	-	471,314	-	31,278	-
Local sources	-	216	-	-	-
On-behalf payments	-	-	-	-	-
Total Revenues	<u>-</u>	<u>479,224</u>	<u>-</u>	<u>31,278</u>	<u>56</u>
Expenditures					
Salaries	-	276,990	-	6,200	-
Benefits	-	81,541	-	90	-
Purchased services	-	102,629	-	24,974	55
Supplies and materials	-	12,019	-	14	-
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	-	5,829	-	-	-
Bad debts expense	-	-	23,964	-	-
On-behalf payments	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>479,008</u>	<u>23,964</u>	<u>31,278</u>	<u>55</u>
Revenues over (under) expenditures	<u>-</u>	<u>216</u>	<u>(23,964)</u>	<u>-</u>	<u>1</u>
Other Financing Sources/(Uses)					
Transfers in	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>216</u>	<u>(23,964)</u>	<u>-</u>	<u>1</u>
Fund Balance (Deficit), Beginning of year	<u>-</u>	<u>120</u>	<u>(10,062)</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit), End of year	<u>\$ -</u>	<u>\$ 336</u>	<u>\$ (34,026)</u>	<u>\$ -</u>	<u>\$ 1</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Pioneer Grant	Truants Alternative Optional Education	Regional Safe Schools	Title IV - Safe and Drug Free Formula	McKinney Education for Homeless Children
Revenues					
State sources	\$ -	\$ 133,519	\$ 61,537	\$ -	\$ -
Federal sources	-	-	26,310	41,790	264,337
Local sources	-	-	-	1,236	2,276
On-behalf payments	-	31,501	-	-	-
Total Revenues	<u>-</u>	<u>165,020</u>	<u>87,847</u>	<u>43,026</u>	<u>266,613</u>
Expenditures					
Salaries	-	72,204	55,558	10,783	41,383
Benefits	-	18,303	17,245	-	9,207
Purchased services	-	42,140	13,562	27,947	6,541
Supplies and materials	-	872	297	1,491	7,429
Transfers - payments to other governmental units	-	-	-	-	200,143
Capital outlay	-	-	1,185	1,569	1,910
Bad debts expense	-	-	-	-	-
On-behalf payments	-	31,501	-	-	-
Total Expenditures	<u>-</u>	<u>165,020</u>	<u>87,847</u>	<u>41,790</u>	<u>266,613</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,236</u>	<u>-</u>
Other Financing Sources/(Uses)					
Transfers in	-	-	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	-	1,236	-
Fund Balance (Deficit), Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance (Deficit), End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,236</u>	<u>\$ -</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Hancock/ McDonough Alternative Schools	ROE Technology Maintenance	Family Literacy	Standards Aligned Classroom	Truants Alternative Optional Education Program Training
Revenues					
State sources	\$ 197,584	\$ -	\$ 1,299	\$ -	\$ 217,872
Federal sources	12,691	-	-	-	-
Local sources	5,801	-	-	-	-
On-behalf payments	-	-	-	-	-
Total Revenues	<u>216,076</u>	<u>-</u>	<u>1,299</u>	<u>-</u>	<u>217,872</u>
Expenditures					
Salaries	128,140	-	569	-	68,240
Benefits	32,763	-	53	-	12,896
Purchased services	21,826	-	1,300	-	131,776
Supplies and materials	10,660	-	1,046	-	4,580
Transfers - payments to other governmental units	-	-	-	-	-
Capital outlay	-	-	-	-	380
Bad debts expense	-	-	-	-	-
On-behalf payments	-	-	-	-	-
Total Expenditures	<u>193,389</u>	<u>-</u>	<u>2,968</u>	<u>-</u>	<u>217,872</u>
Revenues over (under) expenditures	<u>22,687</u>	<u>-</u>	<u>(1,669)</u>	<u>-</u>	<u>-</u>
Other Financing Sources/(Uses)					
Transfers in	-	-	-	-	-
Transfers out	<u>(2,445)</u>	<u>-</u>	<u>-</u>	<u>(49,375)</u>	<u>-</u>
	<u>(2,445)</u>	<u>-</u>	<u>-</u>	<u>(49,375)</u>	<u>-</u>
Net change in fund balances	20,242	-	(1,669)	(49,375)	-
Fund Balance (Deficit), Beginning of year	<u>311,769</u>	<u>3,416</u>	<u>1,669</u>	<u>49,375</u>	<u>50</u>
Fund Balance (Deficit), End of year	<u>\$ 332,011</u>	<u>\$ 3,416</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
EDUCATION FUND ACCOUNTS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
For the Year Ended June 30, 2005

	Teen Court	Gifted Co-Op	Teaching American History Grant	Adult Learning Resource Center	Totals
Revenues					
State sources	\$ 40,473	\$ -	\$ -	\$ -	\$ 849,928
Federal sources	-	-	93,513	27,404	1,151,547
Local sources	-	-	-	1,551	29,139
On-behalf payments	-	-	-	-	31,501
Total Revenues	<u>40,473</u>	<u>-</u>	<u>93,513</u>	<u>28,955</u>	<u>2,062,115</u>
Expenditures					
Salaries	29,437	-	20,999	18,500	935,286
Benefits	3,518	-	761	2,204	233,391
Purchased services	4,496	-	68,088	6,700	549,290
Supplies and materials	2,924	-	3,665	-	66,489
Transfers - payments to other governmental units	-	-	-	-	200,143
Capital outlay	98	-	-	-	18,508
Bad debts expense	-	-	-	-	23,964
On-behalf payments	-	-	-	-	31,501
Total Expenditures	<u>40,473</u>	<u>-</u>	<u>93,513</u>	<u>27,404</u>	<u>2,058,572</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,551</u>	<u>3,543</u>
Other Financing Sources/(Uses)					
Transfers in	-	-	-	-	2,445
Transfers out	-	-	-	-	(51,820)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(49,375)</u>
Net change in fund balances	-	-	-	1,551	(45,832)
Fund Balance (Deficit), Beginning of year	<u>-</u>	<u>3,668</u>	<u>-</u>	<u>1,137</u>	<u>385,521</u>
Fund Balance (Deficit), End of year	<u>\$ -</u>	<u>\$ 3,668</u>	<u>\$ -</u>	<u>\$ 2,688</u>	<u>\$ 339,689</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
EARLY CHILDHOOD BLOCK GRANT
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 188,596	\$ 189,894	\$ 1,298
Total Revenues	<u>188,596</u>	<u>189,894</u>	<u>1,298</u>
Expenditures			
Salaries	107,930	104,399	3,531
Benefits	23,974	24,905	(931)
Purchased/contracted services	41,492	43,480	(1,988)
Materials and supplies	10,200	12,234	(2,034)
Capital outlay	5,000	4,876	124
Total Expenditures	<u>188,596</u>	<u>189,894</u>	<u>(1,298)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
EVEN START
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 185,000	\$ 182,591	\$ (2,409)
Local	-	1,160	1,160
Total Revenues	<u>185,000</u>	<u>183,751</u>	<u>(1,249)</u>
Expenditures			
Salaries	104,225	101,884	2,341
Benefits	28,992	29,876	(884)
Purchased/contracted services	44,083	41,485	2,598
Materials and supplies	5,200	6,685	(1,485)
Capital outlay	2,500	2,661	(161)
Total Expenditures	<u>185,000</u>	<u>182,591</u>	<u>2,409</u>
Net change in fund balances	<u>\$ -</u>	1,160	<u>\$ 1,160</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ 1,160</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
TITLE I - READING FIRST PART B SEA FUNDS
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 25,594	\$ 31,278	\$ 5,684
Total Revenues	<u>25,594</u>	<u>31,278</u>	<u>5,684</u>
Expenditures			
Salaries	8,570	6,200	2,370
Benefits	150	90	60
Purchased/contracted services	15,494	24,974	(9,480)
Materials and supplies	<u>1,380</u>	<u>14</u>	<u>1,366</u>
Total Expenditures	<u>25,594</u>	<u>31,278</u>	<u>(5,684)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
TRUANTS ALTERNATIVE OPTIONAL EDUCATION
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 130,928	\$ 133,519	\$ 2,591
On-behalf payments	-	31,501	31,501
Total Revenues	<u>130,928</u>	<u>165,020</u>	<u>34,092</u>
Expenditures			
Salaries	70,534	72,204	(1,670)
Benefits	20,280	18,303	1,977
Purchased/contracted services	39,014	42,140	(3,126)
Materials and supplies	1,100	872	228
On-behalf payments	-	31,501	(31,501)
Total Expenditures	<u>130,928</u>	<u>165,020</u>	<u>(34,092)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
REGIONAL SAFE SCHOOLS
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 66,917	\$ 61,537	\$ (5,380)
Federal sources	20,746	26,310	5,564
Total Revenues	<u>87,663</u>	<u>87,847</u>	<u>184</u>
Expenditures			
Salaries	55,800	55,558	242
Benefits	16,340	17,245	(905)
Purchased/contracted services	13,770	13,562	208
Materials and supplies	1,753	297	1,456
Capital outlay	-	1,185	(1,185)
Total Expenditures	<u>87,663</u>	<u>87,847</u>	<u>(184)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
TITLE IV - SAFE AND DRUG FREE FORMULA
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 46,843	\$ 41,790	(5,053)
Local	-	1,236	1,236
Total Revenues	<u>46,843</u>	<u>43,026</u>	<u>(3,817)</u>
Expenditures			
Salaries	11,917	10,783	1,134
Purchased/contracted services	27,986	27,947	39
Materials and supplies	5,000	1,491	3,509
Capital outlay	1,600	1,569	31
Transfers - payments to other governmental units	340	-	340
Total Expenditures	<u>46,843</u>	<u>41,790</u>	<u>5,053</u>
Net change in fund balances	<u>\$ -</u>	1,236	<u>\$ 1,236</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ 1,236</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
MCKINNEY EDUCATION FOR HOMELESS CHILDREN
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 266,949	\$ 264,337	\$ (2,612)
Local sources	-	2,276	2,276
Total Revenues	<u>266,949</u>	<u>266,613</u>	<u>(336)</u>
Expenditures			
Salaries	38,800	41,383	(2,583)
Benefits	10,450	9,207	1,243
Purchased/contracted services	7,599	6,541	1,058
Materials and supplies	9,120	7,429	1,691
Capital outlay	1,838	1,910	(72)
Transfers - payments to other governmental units	199,142	200,143	(1,001)
Total Expenditures	<u>266,949</u>	<u>266,613</u>	<u>336</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
TRUANTS ALTERNATIVE OPTIONAL EDUCATION PROGRAM TRAINING
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
State sources	\$ 168,000	\$ 217,872	\$ 49,872
Total Revenues	<u>168,000</u>	<u>217,872</u>	<u>49,872</u>
Expenditures			
Salaries	61,740	68,240	(6,500)
Benefits	12,013	12,896	(883)
Purchased/contracted services	93,247	131,776	(38,529)
Materials and supplies	1,000	4,580	(3,580)
Capital outlay	-	380	(380)
Total Expenditures	<u>168,000</u>	<u>217,872</u>	<u>(49,872)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>50</u>	
Fund Balance, End of year		<u>\$ 50</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
BUDGETARY COMPARISON SCHEDULE
EDUCATION FUND ACCOUNTS
TEACHING AMERICAN HISTORY GRANT
For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Federal sources	\$ 82,994	\$ 93,513	\$ 10,519
Total Revenues	<u>82,994</u>	<u>93,513</u>	<u>10,519</u>
Expenditures			
Salaries	20,075	20,999	(924)
Benefits	3,802	761	3,041
Purchased/contracted services	57,052	68,088	(11,036)
Materials and supplies	<u>2,065</u>	<u>3,665</u>	<u>(1,600)</u>
Total Expenditures	<u>82,994</u>	<u>93,513</u>	<u>(10,519)</u>
Net change in fund balances	<u>\$ -</u>	-	<u>\$ -</u>
Fund Balance, Beginning of year		<u>-</u>	
Fund Balance, End of year		<u>\$ -</u>	

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
June 30, 2005

	Institute Fund	General Education Development Fund	Bus Driver Training	Supervisory Fund	Totals
Assets					
Cash and cash equivalents	\$ 44,637	\$ -	\$ 4,147	\$ -	\$ 48,784
Total Assets	<u>\$ 44,637</u>	<u>\$ -</u>	<u>\$ 4,147</u>	<u>\$ -</u>	<u>\$ 48,784</u>
Liabilities and Fund Balance					
Liabilities					
Due to other funds	\$ -	\$ 1,091	\$ -	\$ -	\$ 1,091
Deferred revenue	22,518	-	-	-	22,518
Total Liabilities	<u>22,518</u>	<u>1,091</u>	<u>-</u>	<u>-</u>	<u>23,609</u>
Fund Balance (Deficit)					
Fund Balance					
Unreserved					
Designated	22,119	(1,091)	4,147	-	25,175
Total Fund Balance (Deficit)	<u>22,119</u>	<u>(1,091)</u>	<u>4,147</u>	<u>-</u>	<u>25,175</u>
Total Liabilities and Fund Balance (Deficit)	<u>\$ 44,637</u>	<u>\$ -</u>	<u>\$ 4,147</u>	<u>\$ -</u>	<u>\$ 48,784</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NONMAJOR SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2005

	Institute Fund	General Education Development Fund	Bus Driver Training	Supervisory Fund	Totals
Revenues					
State sources	\$ -	\$ -	\$ 800	\$ 2,000	\$ 2,800
Local sources	11,991	2,265	600	-	14,856
Total Revenues	<u>11,991</u>	<u>2,265</u>	<u>1,400</u>	<u>2,000</u>	<u>17,656</u>
Expenditures					
Purchased services	17,313	3,167	615	2,000	23,095
Supplies and material	1,010	98	83	-	1,191
Total Expenditures	<u>18,323</u>	<u>3,265</u>	<u>698</u>	<u>2,000</u>	<u>24,286</u>
Net change in fund balance	(6,332)	(1,000)	702	-	(6,630)
Fund Balance (Deficit), Beginning of year	<u>28,451</u>	<u>(91)</u>	<u>3,445</u>	<u>-</u>	<u>31,805</u>
Fund Balance (Deficit), End of year	<u>\$ 22,119</u>	<u>\$ (1,091)</u>	<u>\$ 4,147</u>	<u>\$ -</u>	<u>\$ 25,175</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF NET ASSETS
June 30, 2005

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Assets			
Current assets			
Cash and cash equivalents	\$ 6,537	\$ 14,707	\$ 21,244
Due from other governments	506	-	506
Total current assets	<u>7,043</u>	<u>14,707</u>	<u>21,750</u>
Noncurrent assets			
Equipment, net	<u>613</u>	<u>-</u>	<u>613</u>
Total Assets	<u>\$ 7,656</u>	<u>\$ 14,707</u>	<u>\$ 22,363</u>
Liabilities and Net Assets			
Liabilities			
Total Liabilities	\$ -	\$ -	\$ -
Net Assets			
Invested in capital assets, net of related debt	613	-	613
Unrestricted (Deficit)	<u>7,043</u>	<u>14,707</u>	<u>21,750</u>
Total Net Assets	<u>\$ 7,656</u>	<u>\$ 14,707</u>	<u>\$ 22,363</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Year Ended June 30, 2005

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Operating Revenues			
Charges for services	\$ 6,295	\$ 3,250	\$ 9,545
Operating Expenses			
Purchased/contracted services	4,046	149	4,195
Materials and supplies	2,197	254	2,451
Equipment	733	-	733
Depreciation	175	-	175
Total Operating Expenses	<u>7,151</u>	<u>403</u>	<u>7,554</u>
Change in Net Assets	(856)	2,847	1,991
Net Assets, Beginning of year	<u>8,512</u>	<u>11,860</u>	<u>20,372</u>
Net Assets, End of year	<u>\$ 7,656</u>	<u>\$ 14,707</u>	<u>\$ 22,363</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NONMAJOR ENTERPRISE FUNDS
COMBINING STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2005

	Business-type Activities Enterprise Funds		Totals
	Video Co-Op	Workshop Fund	
Cash Flows from Operating Activities:			
Receipts from customers	\$ 5,789	\$ 3,250	\$ 9,039
Payments to suppliers and providers of goods and services	(6,976)	(403)	(7,379)
Net cash provided by (used for) operating activities	(1,187)	2,847	1,660
Net increase (decrease) in cash and cash equivalents	(1,187)	2,847	1,660
Cash and cash equivalents - July 1, 2004	7,724	11,860	19,584
Cash and cash equivalents - June 30, 2005	\$ 6,537	\$ 14,707	\$ 21,244
Reconciliation of operating income (loss) to net cash from operating activities:			
Operating income (loss)	\$ (856)	\$ 2,847	\$ 1,991
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation	175	-	175
(Increase)/Decrease in assets: Due from other governments	(506)	-	(506)
Net cash from operating activities	\$ (1,187)	\$ 2,847	\$ 1,660

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
ALL AGENCY FUNDS
June 30, 2005

	Distributive Fund	State Superintendent Fund	Regional Board of School Trustees Fund	Area III Superintendents Fund	Totals
Assets					
Cash and cash equivalents	\$ -	\$ 1,190	\$ 1,914	\$ 369	\$ 3,473
Due from other governments	483	-	-	-	483
Total Assets	<u>\$ 483</u>	<u>\$ 1,190</u>	<u>\$ 1,914</u>	<u>\$ 369</u>	<u>\$ 3,956</u>
Liabilities					
Due to other governments	\$ 483	\$ 1,190	\$ 1,914	\$ 369	\$ 3,956
Total Liabilities	<u>\$ 483</u>	<u>\$ 1,190</u>	<u>\$ 1,914</u>	<u>\$ 369</u>	<u>\$ 3,956</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS

For the Year Ended June 30, 2005

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
<i>Distributive Fund</i>				
Assets				
Cash and cash equivalents	\$ -	\$ 5,649,135	\$ (5,649,135)	\$ -
Due from ISBE	178	483	(178)	483
Total Assets	<u>\$ 178</u>	<u>\$ 5,649,618</u>	<u>\$ (5,649,313)</u>	<u>\$ 483</u>
Liabilities				
Due to other funds	\$ -	\$ 5,649,135	\$ (5,649,135)	\$ -
Due to other agencies	178	483	(178)	483
Total Liabilities	<u>\$ 178</u>	<u>\$ 5,649,618</u>	<u>\$ (5,649,313)</u>	<u>\$ 483</u>
<i>State Superintendent Fund</i>				
Assets				
Cash and cash equivalents	\$ 1,261	\$ 4,823	\$ (4,894)	\$ 1,190
Total Assets	<u>\$ 1,261</u>	<u>\$ 4,823</u>	<u>\$ (4,894)</u>	<u>\$ 1,190</u>
Liabilities				
Due to other agencies	\$ 1,261	\$ 4,823	\$ (4,894)	\$ 1,190
Total Liabilities	<u>\$ 1,261</u>	<u>\$ 4,823</u>	<u>\$ (4,894)</u>	<u>\$ 1,190</u>
<i>Regional Board of School Trustees Fund</i>				
Assets				
Cash and cash equivalents	\$ 714	\$ 1,200	\$ -	\$ 1,914
Total Assets	<u>\$ 714</u>	<u>\$ 1,200</u>	<u>\$ -</u>	<u>\$ 1,914</u>
Liabilities				
Due to other agencies	\$ 714	\$ 1,200	\$ -	\$ 1,914
Total Liabilities	<u>\$ 714</u>	<u>\$ 1,200</u>	<u>\$ -</u>	<u>\$ 1,914</u>
<i>Area III Superintendents Fund</i>				
Assets				
Cash and cash equivalents	\$ 245	\$ 2,176	\$ (2,052)	\$ 369
Total Assets	<u>\$ 245</u>	<u>\$ 2,176</u>	<u>\$ (2,052)</u>	<u>\$ 369</u>
Liabilities				
Due to other agencies	\$ 245	\$ 2,176	\$ (2,052)	\$ 369
Total Liabilities	<u>\$ 245</u>	<u>\$ 2,176</u>	<u>\$ (2,052)</u>	<u>\$ 369</u>
<i>Totals</i>				
Assets				
Cash and cash equivalents	\$ 2,220	\$ 5,657,334	\$ (5,656,081)	\$ 3,473
Due from ISBE	178	483	(178)	483
Total Assets	<u>\$ 2,398</u>	<u>\$ 5,657,817</u>	<u>\$ (5,656,259)</u>	<u>\$ 3,956</u>
Liabilities				
Due to other funds	\$ -	\$ 5,649,135	\$ (5,649,135)	\$ -
Due to other agencies	2,398	8,682	(7,124)	3,956
Total Liabilities	<u>\$ 2,398</u>	<u>\$ 5,657,817</u>	<u>\$ (5,656,259)</u>	<u>\$ 3,956</u>

See accompanying Independent Auditors' Report.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF DISBURSEMENTS TO SCHOOL DISTRICT TREASURERS AND OTHERS
For the Year Ended June 30, 2005

		ROE 26	Western Area Career System	West Central Illinois Special Ed	Hancock/ McDonough County Academy	Totals
Distributive Fund Interest	N/A	\$ -	\$ -	\$ -	\$ -	\$ -
General State Aid	3001	-	-	-	210,275	210,275
Special Ed Personnel	3110	-	-	782,461	-	782,461
Voc Ed-Sec Prog Imp	3220	-	263,809	-	-	263,809
Voc Ed-Ag Education	3235	-	20,608	-	-	20,608
State Free Lunch & Breakfast	3360	-	-	1,281	-	1,281
School Breakfast Incentive	3365	-	-	85	-	85
ROE School Bus Driver Training	3520	600	-	-	-	600
Truants Alternative/Optional Ed	3695	298,928	-	-	-	298,928
Regional Safe Schools	3696	87,663	-	-	-	87,663
Early Childhood Block Grant	3705	171,450	-	-	-	171,450
Supervisory	3745	2,000	-	-	-	2,000
National School Lunch (10.555)	4210	-	-	12,219	-	12,219
School Breakfast Program	4220	-	-	6,621	-	6,621
Even Start	4335	185,000	-	-	-	185,000
Title IV Safe & Drug Free (84.186A)	4400	43,750	-	-	-	43,750
Special Ed Pre School (84.173A)	4600	-	-	166,156	-	166,156
Special Ed IDEA Flow-Thru	4620	-	-	3,043,716	-	3,043,716
Voc Ed Perkins Title IIC (84.048A)	4745	-	95,663	-	-	95,663
McKinney Ed for Homeless (84.196A)	4920	256,850	-	-	-	256,850
		<u>\$ 1,046,241</u>	<u>\$ 380,080</u>	<u>\$ 4,012,539</u>	<u>\$ 210,275</u>	<u>\$ 5,649,135</u>

See accompanying Independent Auditors' Report.

FEDERAL COMPLIANCE SECTION

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant Number	Expenditures
U.S. Department of Education			
Teaching American History	84.215X	S215X010107	\$ 93,513
<i>Passed through Illinois State Board of Education (ISBE)</i>			
Title IV - Community Service	84.184C	04-4420-00	319
Title IV - Safe and Drug Free Formula		05-4400-00	41,371
Title IV - Safe and Drug Free Formula		04-4400-00	419
Total Title IV - Safe and Drug Free Formula	84.186A		41,790
McKinney Education for Homeless Children		05-4920-00	255,999
McKinney Education for Homeless Children		04-4920-00	3,504
McKinney Education for Homeless Children		04-4920-02	4,834
<i>Passed through Adult Learning Resource Center</i>			
McKinney Education for Homeless Children		05-4920-00	27,299
McKinney Education for Homeless Children		04-4920-00	105
(M) Total McKinney Education for Homeless Children	84.196A		291,741
<i>Passed through Illinois State Board of Education (ISBE)</i>			
Even Start	84.213C	05-4335-00	182,591
<i>Passed through Two Rivers Professional Development Center</i>			
Standards Aligned Classroom Project	84.298A		5,000
Title II - Teacher Quality	84.367A		12,750
Title I - Reading First Part B SEA Funds		05-4337-02	13,134
Title I - Reading First Part B SEA Funds		04-4337-02	18,144
Total Title I - Reading First Part B SEA Funds	84.357A		31,278
<i>Passed through Illinois Department of Human Services (IDHS)</i>			
(M) Special Education - Grants for Infants and Families with Disabilities	84.181	511G5167721	471,314
Social Service Block Grant (non-cash)	93.667	511G5167721	71,265
U.S. Department of Health and Human Services			
<i>Passed through Illinois State Board of Education (ISBE)</i>			
Temporary Assistance for Needy Families (Regional Safe Schools State Aid)		05-3001-93	12,691

The accompanying notes are an integral part of this schedule.

HANCOCK/MCDONOUGH REGIONAL OFFICE OF EDUCATION NO. 26
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2005

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Hancock/McDonough Regional Office of Education No. 26 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in conformance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. DESCRIPTIONS OF FEDERAL PROGRAMS AUDITED AS A MAJOR PROGRAM

The major federal programs of the Hancock/McDonough Regional Office of Education No. 26 are the Special Education – Grants for Infants and Families with Disabilities (CFDA # 84.181) and the McKinney Education for Homeless Children (CFDA # 84.196A). These funds are used to assist in providing early intervention services for infants and toddlers with disabilities and their families and to ensure that homeless children and youth have equal access to the same free, appropriate public education as other children, respectively.

3. SUBRECIPIENTS

Of the expenditures in this schedule, the Hancock/McDonough Regional Office of Education No. 26 provided awards to subrecipients in the amount of \$200,143 under the McKinney Education for Homeless Children program.

4. NON-MONETARY FEDERAL AWARDS

The Hancock/McDonough Regional Office of Education No. 26 provides screening services to individuals as part of its special education program. The Illinois Department of Human Services (DHS) provides benefits to these individuals, based on the results of the screenings. DHS has determined that these non-monetary federal awards amount to \$71,265, which has been included in the Schedule of Expenditures of Federal Awards.

5. INSURANCE

The Hancock/McDonough Regional Office of Education No. 26 did not receive any Federal awards involving insurance with continuing compliance requirements.

6. LOANS AND LOAN GUARANTEES

The Hancock/McDonough Regional Office of Education No. 26 did not receive any Federal awards involving loans or loan guarantees with continuing compliance requirements.

BASIC FINANCIAL STATEMENTS