

Northern Kane County Regional Career
and Technical Education System
Elgin, Illinois

Annual Financial Report
June 30, 2015

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RSM US LLP

Independent Auditor's Report

School District U-46 as Fiscal Agent for
Northern Kane County Regional Career and
Technical Education System
Elgin, Illinois

Report on the Financial Statements

We have audited the accompanying cash basis financial statements of the governmental activities and the major fund of Northern Kane County Regional Career and Technical Education System (the System) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, and the major fund of Northern Kane County Regional Career and Technical Education System as of June 30, 2015, and the respective changes in cash basis financial position thereof for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

RSM US LLP

Chicago, Illinois
November 6, 2015

Northern Kane County Regional Career and Technical Education System

**Statement of Net Position/Governmental Fund Balance Sheet -
Cash Basis
June 30, 2015**

	Governmental Activities
Assets	
Cash	<u>\$ 858,194</u>
Total assets	<u><u>\$ 858,194</u></u>
Net Position/Fund Balance	
Restricted for grant programs	<u>\$ 858,194</u>
Total Net Position	<u><u>\$ 858,194</u></u>

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Career and Technical Education System

**Statement of Activities -
Cash Basis
For the Year Ended June 30, 2015**

	Total	Instruction	Support Services	Payments to Other Governments
Expenses:				
Salaries	\$ 1,022	\$ -	\$ 1,022	\$ -
Employee benefits	217	-	217	-
Purchased services	50,708	-	50,708	-
Supplies and materials	1,793	-	1,793	-
Equipment	18,664	18,664	-	-
Transfers to other local education agencies	1,115,495	-	-	1,115,495
Total expenses	1,187,899	18,664	53,740	1,115,495
Program revenues:				
Operating grants and contributions	1,419,461	-	-	1,419,461
Net program (expense) revenue	231,562	\$ (18,664)	\$ (53,740)	\$ 303,966
Change in net position	231,562			
Net position - beginning	626,632			
Net position - ending	<u>\$ 858,194</u>			

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Career and Technical Education System

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Cash Basis
General Fund
For the Year Ended June 30, 2015**

	Original and Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues			
State sources			
Vocational Education - Career and Technical Improvement	\$ 986,221	\$ 881,286	\$ (104,935)
Federal sources			
Vocational Education - Perkins Title IIC Secondary	644,822	538,175	(106,647)
Total revenues	1,631,043	1,419,461	(211,582)
Expenditures			
Instruction			
CTE Programs	-	18,664	(18,664)
Support services			
Pupils	69,450	42,820	26,630
Instructional staff	30,550	8,312	22,238
General administration	85,935	2,608	83,327
Total support services	185,935	53,740	132,195
Payments to other governments			
Payments for vocational education programs - Transfers to other local education agencies	1,445,108	1,115,495	329,613
Total expenditures	1,631,043	1,187,899	443,144
Net change in fund balance	\$ -	231,562	\$ 231,562
Fund balance			
Beginning		626,632	
Ending		\$ 858,194	

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Career and Technical Education System

Notes to Basic Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

The Northern Kane County Regional Career and Technical Education System (the System) was organized July 1, 1988, by a joint resolution of School District U-46, Dundee School District No. 300 and St. Charles School District No. 303 for the primary purpose of providing a framework for offering coordinated, quality vocational education programs. In August 2003, Central Community School District 301 was added to the System by a joint resolution. The Chief Executive Council (CEC) is composed of superintendents and/or designated representatives of the member high school districts.

School District U-46 is the administrative district for the System. School District U-46 does not receive compensation for its services.

Significant Accounting Policies

Basis of Accounting

The System maintains its accounts and prepares its annual budget on the cash basis of accounting, which varies from accounting principles generally accepted in the United States of America in that revenues and expenditures are recognized when received and disbursed, respectively, rather than when earned or incurred.

Financial Reporting Entity

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the primary government, as well as component units, which are legally separate organizations for which elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government and the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Financial benefit or financial burden is created if any one of the following relationships exists:

- 1) The primary government is legally entitled to or has access to the component unit's resources.
- 2) The primary government is legally required or has assumed the obligation to finance the deficits of, provide support to, the component unit.
- 3) The primary government is obligated in some manner for the other component unit's debt.

Based upon the application criteria, no component units have been included within the reporting entity.
Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the System are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The System's fund is maintained consistent with legal and managerial requirements.

Northern Kane County Regional Career and Technical Education System

Notes to Basic Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

The System's fund is classified as a governmental fund. The fund description follows:

Governmental Fund

The General Fund is used to account for the System's general government activities. The acquisition, use and balances of the System's expendable financial resources and the related liabilities are accounted for through the General Fund.

System-Wide Financial Statements

The System-wide statement of net position and the statement of activities display information about the reporting government as a whole.

The System-wide statements are reported using the cash basis of accounting measurement focus which recognizes revenues when received and expenditures when paid. The statement of net position includes all current assets associated with the operation of the System.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or program are offset by program revenues. Direct revenues are those that are clearly identifiable with a specific function or segment. Program revenues include grants that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues such as interest earnings are reported instead as general revenues.

Fund Financial Statements

Governmental Fund

The governmental fund financial statements are also reported using cash basis accounting. With this measurement focus, only current assets are included on the balance sheet. Accordingly, revenues are recognized when received, and expenditures are recognized when paid.

There were no differences occurring from the manner in which the fund financial statements and the System-wide statements were prepared. The fund financial statement's balance sheet is, therefore, presented as part of the System-wide statement of net position. The statement of revenues, expenditures and changes in fund balance includes required supplemental budget information.

Restricted Resources Policy

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources, as they are needed.

Fund Balances

Within the governmental fund types, the System's fund balances are reported in one of the following classifications:

Nonspendable – includes amounts that cannot be spent because they are either: a) not in spendable form; or b) legally or contractually required to be maintained intact. At June 30, 2015, the System has no nonspendable fund balance amounts.

Northern Kane County Regional Career and Technical Education System

Notes to Basic Financial Statements

Note 1. Nature of Operations and Significant Accounting Policies (Continued)

Fund Balances (Continued)

Restricted – includes amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the System's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the System removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. The System's highest level of decision-making authority rests with the System's Board. The System passes formal resolutions to commit their fund balances. At June 30, 2014, the System has no committed fund balances.

Assigned – includes amounts that are constrained by the System's *intent* to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by: a) the System's Board itself; or b) a body or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. The System's Board has not authorized any other body or official to assign amounts for a specific purpose. At June 30, 2015, the System has no assigned fund balances.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned. At June 30, 2015 the System has no unassigned fund balance.

It is the System's policy to consider restricted resources to have been spent first when an expenditure is incurred for which both restricted and unrestricted (i.e. committed, assigned or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts would be used only after the other resources have been used.

At June 30, 2015, the System's fund balance was restricted for state and federal grant programs.

Use of Estimates

The preparation of financial statements may require management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the period. Actual results may differ from these estimates.

Note 2. Budgetary Information

The System adopts an annual budget prepared on the same basis of accounting as the annual financial statements.

The System follows these procedures in establishing the budgetary data reflected in the accompanying financial statements.

Northern Kane County Regional Career and Technical Education System

Notes to Basic Financial Statements

Note 2. Budgetary Information (Continued)

Prior to July 15, the budget is prepared and submitted to the Board for the fiscal year commencing July 1. The operating budget includes all projected expenditures and the means of financing them.

A tentative budget approved by the Board is then available for public inspection 30 days prior to public hearings.

Prior to August 31, the budget is legally adopted through passage of a resolution.

Formal budgetary integration is employed as a management control device. There were no amendments to the original budget adopted. The legal level of budgeting control is at the fund level.

Note 3. Cash Deposits

Permitted Deposits and Investments – State statutes and Board policy authorize the System to invest any available funds in: (1) direct obligations of or obligations guaranteed by the United States or its agencies; (2) commercial paper issued by United States corporations rated within the three highest classifications by at least two standard rating services and maturing within 180 days or less; (3) interest bearing savings accounts, certificates of deposit, or other time deposits in federally insured and/or state chartered banks and savings and loan associations; (4) the Illinois School District Liquid Asset Fund plus (ISDLAF+); (5) the Illinois Funds; (6) money market mutual funds; (7) Bankers' acceptances of banks whose senior obligations are rated in the top two rating categories by two national rating agencies and maintain that rating during the term of the investment; (8) repurchase agreements of government securities; and (9) interest bearing bonds of any county, township, city, village incorporated town, municipality, or school district.

At June 30, 2015, the System had deposits with federally insured financial institutions of \$863,665 with the book balances totaling \$858,194.

Custodial Credit Risk: In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a deposit policy for custodial credit risk. As of June 30, 2015, the System was not exposed to custodial credit risk.

Note 4. Grant Contingencies

The System received financial awards from federal and state agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements, and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the System. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the financial position of the System at June 30, 2015.

Northern Kane County Regional Career and Technical Education System

Notes to Basic Financial Statements

Note 5. Authoritative Pronouncements Issued But Not Yet Adopted

The following is a description of other GASB authoritative pronouncements, which have been issued but not yet adopted by the System:

Statement No. 72, *Fair Value Measurement and Application*, will be effective for the System beginning with its year ending June 30, 2016. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*, will be effective for the System beginning with its year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for the System beginning with its year ending June 30, 2017. This statement will establish requirements for those pension and pension plans that are not administered through a trust meeting specified criteria.

Statement No. 74, *Financial Reporting for Postemployment Benefits Other Than Pension Plans*, will be effective for the System beginning with its year ending June 30, 2017. This statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (Employer)*, will be effective for the System beginning with its year ending June 30, 2018. This statement requires governments to report a liability on the face of the financial statements for the OPEB they provide and requires governments in all types of OPEB plans to report more extensive note disclosures and required supplementary information about their OPEB liabilities.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for the System beginning with its year ending June 30, 2016. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The first category of authoritative GAAP consists of GASB Statements of Government Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The statement also addresses the use of authoritative and nonauthorized literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Statement No. 77, *Tax Abatement Disclosures*, will be effective for System beginning with its year ending June 30, 2017. This statement requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues.

Management has not currently determined what impact, if any, these Statements may have on its financial statements.