

Northern Kane County Regional Vocational System Elgin, Illinois

Annual Financial Report
June 30, 2011

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Independent Auditor's Report

School District U-46 as Fiscal Agent for
Northern Kane County Regional Vocational System
Elgin, Illinois

We have audited the accompanying financial statements of the governmental activities and the major fund of Northern Kane County Regional Vocational System, Elgin, Illinois, as of and for the year ended June 30, 2011, which collectively comprise the System's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the System'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, also 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.

As discussed in Note 1, these financial statements were prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, and the major fund of Northern Kane County Regional Vocational System, Elgin, Illinois, as of June 30, 2011, and the respective changes in financial position – cash basis for the year then ended in conformity with the basis of accounting described in Note 1.

As discussed in Note 1 to the financial statements, as July 1, 2010, the System adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*.

The management's discussion and analysis on pages 2-7 is not a required part of the basic financial statements but are supplementary information required by the 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.

McGladrey & Pullen, LLP

Chicago, Illinois
December 14, 2011

The discussion and analysis of Northern Kane County Regional Vocational System's (the "System") financial performance provides an overall review of the System's financial activities for the year ended June 30, 2011. The management of the System encourages readers to consider the information presented herein in conjunction with the basic financial statements to enhance their understanding of the System's financial performance. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (the "MD&A").

Financial Highlights

- The assets of the System of \$684,100 equaled net assets, all of which are restricted for grant programs.
- In total, net assets increased by \$208,183, which represents a 43.7% overall increase from the prior year. This increase was primarily the result of the timing of payments to other governments.
- Program specific revenues, in the form of grants, were \$1,340,943 in 2011 and \$953,235 in 2010.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the System's basic financial statements. The basic financial statements are comprised of three components:

- System-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

System-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the System's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The statement of activities presents information showing how the System's net assets changed during the fiscal year being reported. All changes in net assets are reported on the cash basis of accounting, in that revenues and expenditures are recognized when received and disbursed, respectively, rather than when earned or incurred.

The government-wide financial statements present the functions of the System that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the System include instruction (regular education, special education and other), support services and payments to other governments.

Northern Kane County Regional Vocational System

Management's Discussion and Analysis
For the Year Ended June 30, 2011

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The System uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The System is comprised of one governmental fund.

The governmental fund is used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a school System's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements; however, because the System does not maintain any capital assets or long-term debt, the balance of the governmental activities matches the balances of the governmental fund.

The System adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the system-wide and fund financial statements.

System-Wide Financial Analysis

The System's net assets increased by \$208,183, which represents a 43.7% overall increase from the prior year. At year-end, total net assets were \$684,100 (see Table 1).

Table 1 - Condensed Statement of Net Assets

	<u>Governmental Activities</u>		<u>Percentage</u>
	<u>6/30/11</u>	<u>6/30/10</u>	<u>Change</u>
Total Assets	<u>\$ 684,100</u>	<u>\$ 475,917</u>	<u>43.7%</u>
Restricted Net Assets	<u>\$ 684,100</u>	<u>\$ 475,917</u>	<u>43.7%</u>

Northern Kane County Regional Vocational System

Management's Discussion and Analysis
For the Year Ended June 30, 2011

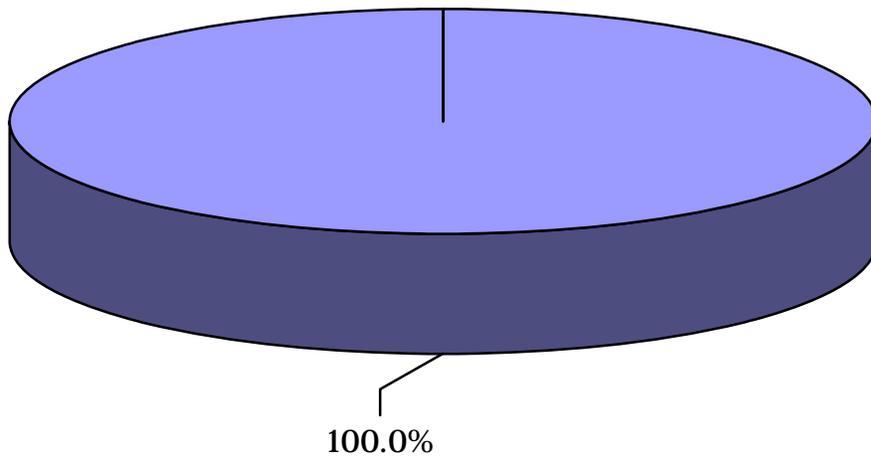
Table 2, Changes in Net Assets, illustrates in summary form revenues and expenses from FY 2011 and the increase in net assets of \$208,183. Comparative data from FY 2010 is also illustrated.

Table 2 - Condensed Statement of Activities
(in millions)

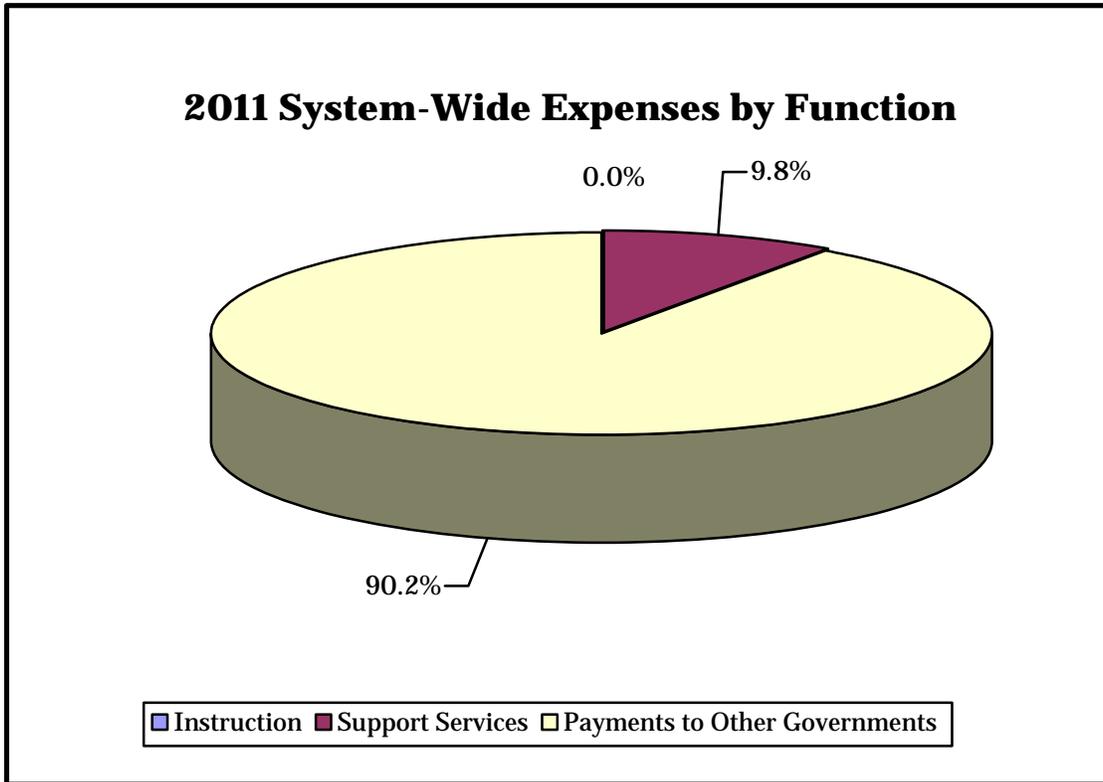
	Governmental Activities		Percentage Change
	6/30/11	6/30/10	
Revenues:			
Program revenues			
Operating grants	\$ 1,340,943	\$ 953,235	40.67%
General revenues			
Interest earnings	-	-	0.00%
Total revenues	1,340,943	953,235	40.67%
Expenses:			
Instruction	40	75	-46.67%
Support services	107,262	103,205	3.93%
Payments to other governments	1,025,458	952,620	7.65%
Total expenses	1,132,760	1,055,900	7.28%
Change in net assets	208,183	(102,665)	
Net assets, beginning	475,917	578,582	
Net assets, ending	\$ 684,100	\$ 475,917	

The total cost of all programs and services was \$1,132,760 in 2011 and \$1,055,900 in 2010. The System's expenses are predominantly related to instruction, support services and payments to other governments. Payments to other governments related to the System's payments to its member districts for their vocational educational programs. Total revenues exceeded expenses by \$208,183, resulting in an increase of net assets to \$684,100.

2011 System-Wide Revenues by Source



■ Operating grants & contributions



Financial Analysis of the System's Funds

As the System completed the year, its governmental fund reported a fund balance of \$684,100. In 2011, total revenues for the System's governmental funds were \$1,340,943, while total expenditures were \$1,132,760 compared to \$953,235 and \$1,055,900, respectively, in the prior year.

General Fund Budgetary Highlights

While the System's budget anticipated that expenditures would equal revenues, the actual result for the year was an excess of revenues over expenditures of \$208,183. This is due primarily to the timing of payments to other governments.

Factors Impacting the System's Future

The System was aware of specific existing circumstances that could significantly affect its financial health in the future, mainly relating to the current economy of the state of Illinois, which continues to affect the System's state funding levels and timing of state payments to the System.

Requests for Information

This financial report is designed to provide the System's citizens, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Chief Operations Officer, School System U-46, 355 E. Chicago St., Elgin, IL 60120.

Northern Kane County Regional Vocational System

**Statement of Net Assets/Governmental Fund Balance Sheet
Cash Basis
June 30, 2011**

	Governmental Activities
<hr/>	
Assets	
Cash	<u>\$ 684,100</u>
Total assets	<u><u>\$ 684,100</u></u>
Net Assets/Fund Balance	
Restricted for grant programs	<u>\$ 684,100</u>
Total Net Assets	<u><u>\$ 684,100</u></u>

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Vocational System

Statement of Activities

Cash Basis

For the Year Ended June 30, 2011

	Total	Instruction	Support Services	Payments to Other Governments
Expenses:				
Salaries	\$ 12,268	\$ -	\$ 12,268	\$ -
Employee benefits	4,887	-	4,887	-
Purchased services	72,729	40	72,689	-
Supplies and materials	17,418	-	17,418	-
Transfers to other local education agencies	1,025,458	-	-	1,025,458
Total expenses	1,132,760	40	107,262	1,025,458
Program revenues:				
Operating grants and contributions	1,340,943	-	-	1,340,943
Net program (expense) revenue	208,183	\$ (40)	\$ (107,262)	\$ 315,485
Change in net assets	208,183			
Net assets - beginning	<u>475,917</u>			
Net assets - ending	<u>\$ 684,100</u>			

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Vocational System

**General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual - Cash Basis
For the Year Ended June 30, 2011**

	Original and Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues			
Local sources			
Earnings on investments	\$ -	\$ -	\$ -
State sources			
Vocational Education - Career and Technical Improvement	913,355	744,182	(169,173)
Vocational Education - Agriculture	-	-	-
Total state sources	<u>913,355</u>	<u>744,182</u>	<u>169,173</u>
Federal sources			
Vocational Education - Perkins Title IIC Secondary	643,620	596,761	(46,859)
Total revenues	<u>1,556,975</u>	<u>1,340,943</u>	<u>(216,032)</u>
Expenditures			
Instruction			
Vocational programs	-	40	(40)
Support services			
Guidance services	-	67,426	(67,426)
Improvement of instructional services	-	21,980	(21,980)
Executive administration services	-	17,856	(17,856)
Total support services	<u>-</u>	<u>107,262</u>	<u>(107,262)</u>
Payments to other governments			
Payments for vocational education programs			
Transfers to other local education agencies	1,556,975	1,025,458	531,517
Total expenditures	<u>1,556,975</u>	<u>1,132,760</u>	<u>424,215</u>
Net change in fund balance	<u>\$ -</u>	<u>208,183</u>	<u>\$ 208,183</u>
Fund balance			
Beginning		<u>475,917</u>	
Ending		<u>\$ 684,100</u>	

See Accompanying Notes to Basic Financial Statements.

Note 1. Nature of Operations and Significant Accounting Policies

Nature of Operations

The Northern Kane County Vocational System (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 executive board of the System is to be comprised of two representatives from each district.

School District U-46 is the fiscal agent 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

This report includes the fund of the System. There are no component units included in the System's report as defined by Governmental Accounting Standards Board Statement Nos. 14 and 39, as the System does not oversee any other entities. The specific criteria applied to determine the existence of component units are the System's ability to significantly influence operations or the accountability for fiscal matters of another entity. Based on the same criteria, the System is not a material component unit of another 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.

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

Governmental Fund

Governmental fund type 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 governmental fund. The general fund is the System's primary operating fund. It accounts for all financial resources of the System.

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

System-Wide Financial Statements

The System-wide statement of net assets 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 assets 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 assets. 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

Effective July 1, 2010, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement established fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. In addition, GASB 54 modified certain fund type definitions and provided guidance for classification of stabilization amounts on the face of the balance sheet.

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, 2011, the System has no nonspendable fund balance amounts.

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

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, 2011, the System has no assigned fund balances.

Unassigned – includes the residual fund balance that has not been restricted, committed, or assigned.

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, 2011 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:

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 loans 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; (9) and interest bearing bonds of any county, township, city, village incorporated town, municipality, or school district.

At June 30, 2011, the System had deposits with federally insured financial institutions of \$684,718 with the book balances totaling \$684,100.

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, 2011, 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, 2011.

Note 5. 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.

GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, will be effective for the System beginning with its year ending June 30, 2012. This Statement addresses the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit plans.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the System beginning with its year ending June 30, 2013. This Statement improves financial reporting by addressing issues related to service concession arrangements.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*, will be effective for the System beginning with its year ending June 30, 2013. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the System beginning with its year ending June 30, 2013. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain Financial Accounting Standards Board and AICPA pronouncements, issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows Resources, and Net Position*, will be effective for the System beginning with its year ending June 30, 2013. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources.

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement 53*, will be effective for the System beginning with its year ending June 30, 2012. This Statement enhances comparability and improves financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap's counterparty's credit support provider, is replaced.

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