

**Northern Kane County Regional
Vocational System
Elgin, Illinois**

Annual Financial Report
June 30, 2010

Contents

Independent Auditor's Report	1-2
Management's Discussion and Analysis	3 - 8
Basic Financial Statements	
System-wide Financial Statements	
Statement of Net Assets/Governmental Fund Balance Sheet – Cash Basis	9
Statement of Activities – Cash Basis	10
Fund Financial Statements	
Governmental Fund	
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Cash Basis	
General Fund	11
Notes to Basic Financial Statements	12 – 15
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	16-17
Schedule of Findings	18



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 (System), as of and for the year ended June 30, 2010, 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 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 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 System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2011, on our consideration of the System'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 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 on pages 3-8 is not a required part of the basic financial statements but is 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
January 19, 2011

Northern Kane County Regional Vocational System

Management's Discussion and Analysis For the Year Ended June 30, 2010

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, 2010. 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 \$475,917 equaled net assets, all of which are unrestricted.
- In total, net assets decreased by \$102,665, which represents a 17.7% overall decrease from the prior year. This decrease was primarily the result of lower than expected grant revenues.
- Program specific revenues, in the form of grants, were \$953,235 in 2010 and \$1,492,212 in 2009.

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, 2010

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 comprises 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 decreased by \$102,665, which represents a 17.7% overall decrease from the prior year. At year-end, total net assets were \$475,917 (see Table 1).

Table 1 - Condensed Statement of Net Assets

	Governmental Activities		Percentage Change
	6/30/10	6/30/09	
Current Assets	\$ 475,917	\$ 578,582	(17.7%)
Unrestricted Net Assets	\$ 475,917	\$ 578,582	(17.7%)

Northern Kane County Regional Vocational System

**Management's Discussion and Analysis
For the Year Ended June 30, 2010**

Table 2, Changes in Net Assets, illustrates in summary form revenues and expenses from FY 2010 and the decrease in net assets of \$102,665. Comparative data from FY 2009 is also illustrated.

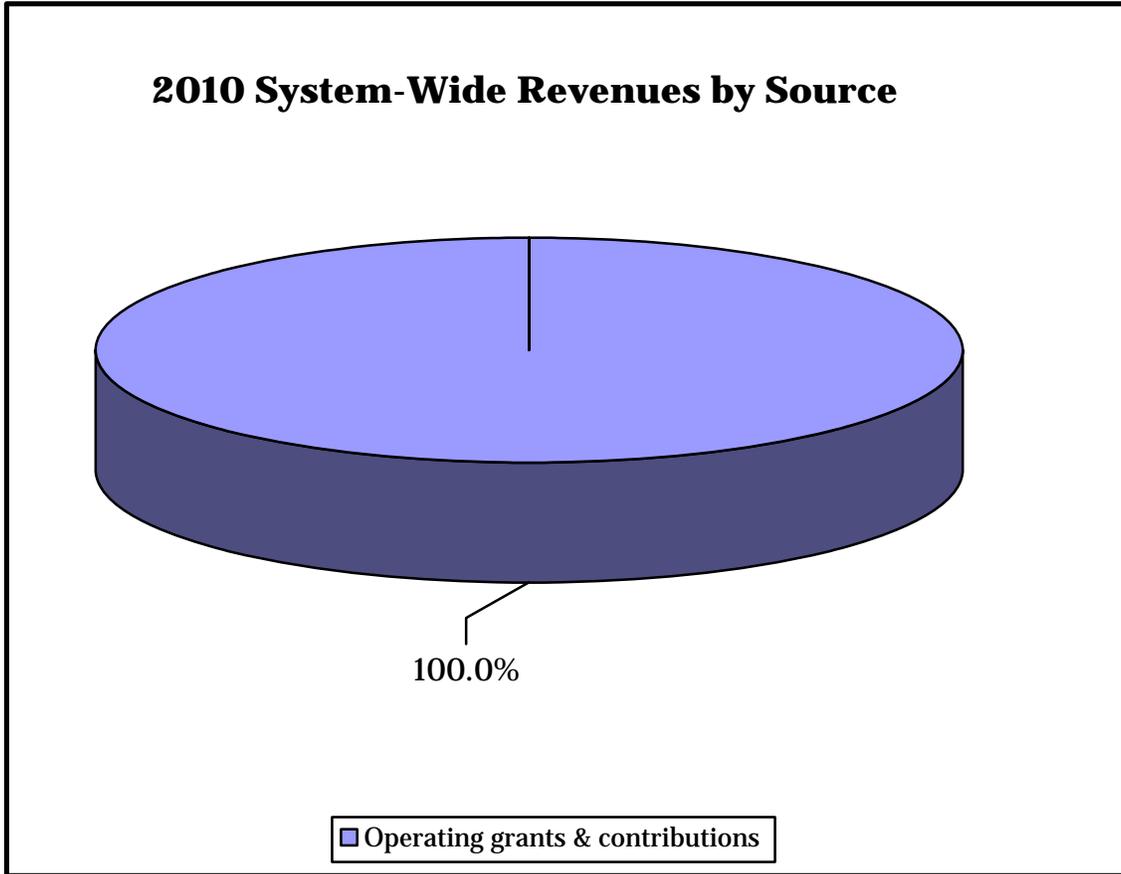
**Table 2 - Condensed Statement of Activities
(in millions)**

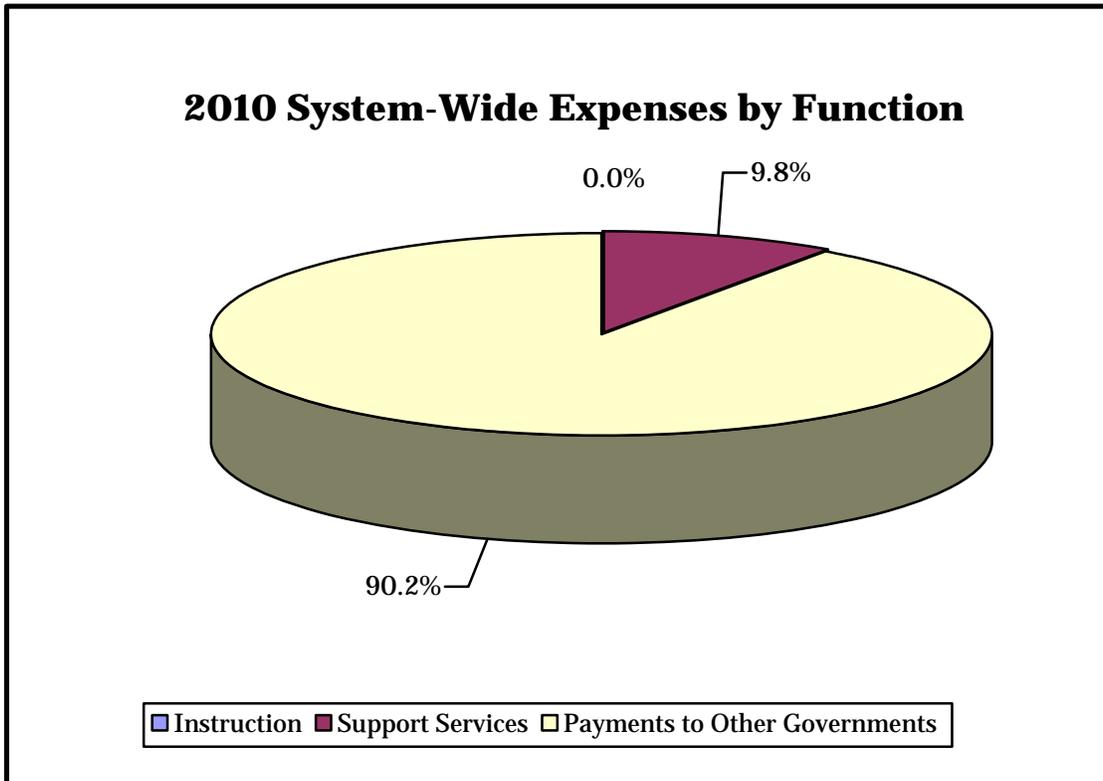
	Governmental Activities		Percentage Change
	6/30/10	6/30/09	
Revenues:			
Program revenues			
Operating grants	\$ 953,235	\$ 1,492,912	(36.1%)
General revenues			
Interest earnings	-	4,533	(100.0%)
Total revenues	953,235	1,497,445	(36.3%)
Expenses:			
Instruction	75	354	(78.8%)
Support services	103,205	265,319	(61.1%)
Payments to other governments	952,620	1,288,368	26.1%
Total expenses	1,055,900	1,554,041	(32.1%)
Change in net assets	(102,665)	(56,596)	(81.4%)
Net assets, beginning	578,582	635,178	
Net assets, ending	\$ 475,917	\$ 578,582	

Northern Kane County Regional Vocational System

**Management's Discussion and Analysis
For the Year Ended June 30, 2010**

The total cost of all programs and services was \$1,055,900 in 2010 and \$1,554,041 in 2009. 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 expenses exceeded revenues by \$102,665, resulting in a decrease of net assets to \$475,917.





Financial Analysis of the System's Funds

As the System completed the year, its governmental fund reported a fund balance of \$475,917. In 2010, total revenues for the System's governmental funds were \$953,235, while total expenditures were \$1,055,900 compared to \$1,497,445 and \$1,554,041, respectively, in the prior year.

General Fund Budgetary Highlights

While the System's budget for the General Fund anticipated that expenditures would exceed revenues by \$56,222, the actual result for the year was an excess of expenditures over revenues of \$102,665. This is due primarily by revenues falling short of budget by \$544,209, which was offset by expenditures being less than budget by \$497,766. Revenues were short due to less grant money received than expected and expenditures were cut accordingly to the extent possible to make up the shortfall.

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.

Northern Kane County Regional Vocational System

**Management's Discussion and Analysis
For the Year Ended June 30, 2010**

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, 2010**

	Governmental Activities
Assets	
Cash	<u>\$ 475,917</u>
Total assets	<u><u>\$ 475,917</u></u>
Net Assets/Fund Balance	
Unrestricted	<u>\$ 475,917</u>
Total Net Assets	<u><u>\$ 475,917</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, 2010

	Total	Instruction	Support Services	Payments to Other Governments
Expenses:				
Salaries	\$ 59,658	\$ -	\$ 59,658	\$ -
Employee benefits	17,142	-	17,142	-
Purchased services	26,050	75	25,975	-
Supplies and materials	430	-	430	-
Transfers to other local education agencies	952,620	-	-	952,620
Total expenses	1,055,900	75	103,205	952,620
Program revenues:				
Operating grants and contributions	953,235	-	-	953,235
Net program (expense) revenue	(102,665)	\$ (75)	\$ (103,205)	\$ 615
Change in net assets	(102,665)			
Net assets - beginning	<u>578,582</u>			
Net assets - ending	<u>\$ 475,917</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, 2010**

	Original and Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues			
Local sources			
Earnings on investments	\$ 4,532	\$ -	\$ (4,532)
State sources			
Vocational Ed - career and technical improvement	854,564	389,578	(464,986)
Vocational Education - Agriculture	3,640	6,360	2,720
Total state sources	858,204	395,938	462,266
Federal sources			
Vocational Education - Perkins Title IIC Secondary	634,708	557,297	(77,411)
Total revenues	1,497,444	953,235	(544,209)
Expenditures			
Instruction			
Vocational programs	-	75	(75)
Support services			
Guidance services	169,752	20,484	149,268
Improvement of instructional services	10,708	3,930	6,778
Executive administration services	84,837	78,791	6,046
Total support services	265,297	103,205	162,092
Payments to other governments			
Payments for vocational education programs			
Transfers to other local education agencies	1,288,369	952,620	335,749
Total expenditures	1,553,666	1,055,900	497,766
Net change in fund balance	\$ (56,222)	(102,665)	\$ (46,443)
Fund balance			
Beginning		578,582	
Ending		<u>\$ 475,917</u>	

See Accompanying Notes to Basic Financial Statements.

Northern Kane County Regional Vocational System

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 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 all funds of the System, which is a primary government unit as defined by Governmental Accounting Standards Board Statement Nos. 14 and 39. There are no component units included in the System's report 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 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.

Northern Kane County Regional Vocational System

Notes to Basic Financial Statements

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.

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 Vocational 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 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, 2010, the System had deposits with federally insured financial institutions of \$475,917 with the book balances totaling \$475,917.

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, 2010, 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, 2010.

Northern Kane County Regional Vocational System

Notes to Basic Financial Statements

Note 5. New Accounting Pronouncements

Statement No. 61, *The Financial Reporting Omnibus, An Amendment of GASB Statements No. 14 and No. 34*, was issued to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity* and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. The System is required to implement this Statement for the year ending June 30, 2013.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance contained in pre-November 1989 FASB and AICPA Pronouncements*, was established to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain FASB and AICPA pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The System is required to implement this Statement for the year ending June 30, 2013.

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



**Independent Auditor's 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***

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

We have audited the financial statements of the governmental activities and the major fund of the Northern Kane County Regional Vocational System, Elgin, Illinois (System) as of and for the year ended June 30, 2010, which collectively comprise the System's basic financial statements and have issued our report thereon dated January 19, 2011. 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 System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System'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 is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the 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 those specified parties.

McGladrey & Pullen, LLP

Chicago, Illinois
January 19, 2011

Northern Kane County Regional Vocational System

Schedule of Findings

None.