

STATE OF ILLINOIS  
INTERMEDIATE SERVICE CENTER NO. 2  
FINANCIAL AUDIT  
(IN ACCORDANCE WITH THE SINGLE AUDIT ACT  
AND OMB CIRCULAR A-133)  
FOR THE YEAR ENDED JUNE 30, 2011

PERFORMED AS SPECIAL ASSISTANT AUDITORS  
FOR THE OFFICE OF THE AUDITOR GENERAL

**INTERMEDIATE SERVICE CENTER NO. 2**  
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**OFFICIALS**

**INTERMEDIATE SERVICE CENTER NO. 2**

Executive Director	(Current and during audit period)	Ms. Kay Poyner Brown
Administrative Assistant	(Current and during audit period)	Ms. Mary Ann Coull
Financial Analyst	(Current and during audit period)	Ms. Linda Rogers
Business Manager	(During audit period)	Ms. Meg Fetzer, CPA

Offices are located at:

2701 W. Washington Blvd.  
Bellwood, IL 60104

**COMPLIANCE REPORT**  
**SUMMARY**

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

**AUDITORS' REPORTS**

The auditors' reports on compliance and on internal controls 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	-3-	-0-
Repeated audit findings	-0-	-0-
Prior recommendations implemented or not repeated	-0-	-N/A-

Details of audit findings are presented in a separate section of this report.

**SUMMARY OF FINDINGS AND QUESTIONED COSTS**

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
FINDINGS (GOVERNMENT AUDITING STANDARDS)			
11-1	11	Inadequate Documentation for Payroll Expenditures	Significant Deficiency and Noncompliance
11-2	13	Use of Designated Grant Balances	Material Weakness
11-3	14	Controls over Financial Statement Preparation	Material Weakness
FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)			
11-1	11	Inadequate Documentation for Payroll Expenditures	Significant Deficiency and Noncompliance

PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

-N/A-

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

-N/A-

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Center personnel at an informal exit conference on November 14, 2012. Attending were Ms. Kay Poyner Brown, Executive Director, Linda Rogers, Financial Analyst, Gary Lasker, Partner from Bass, Solomon, and Dowell LLP, and Jason Rothenburger, Manager from Bass, Solomon, and Dowell LLP.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**FINANCIAL STATEMENT REPORT**  
**SUMMARY**

The audit of the accompanying basic financial statements of Intermediate Service Center No. 2 was performed by Bass, Solomon & Dowell, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the Agency's basic financial statements.

**INDEPENDENT AUDITORS' REPORT**

Honorable William G. Holland  
Auditor General  
State of Illinois

Board of Directors  
Intermediate Service Center No. 2

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2011, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Intermediate Service Center No. 2 adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* during the year ended June 30, 2011. The statement changed the classifications of governmental fund balances and clarified the definitions of existing fund types. The adoption of this statement had no effect on any of Intermediate Service Center No. 2's governmental funds' assets or liabilities nor was there any effect to the total amount of any of the Intermediate Service Center No. 2's governmental fund balances as of and for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 14, 2012 on our consideration of the Intermediate Service Center No. 2'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 on pages 21 through 24 is not a required part of the basic financial statements but is 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 Intermediate Service Center No. 2's basic financial statements. The Budgetary Comparison Schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Budgetary Comparison Schedules 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.

*Bass, Johnson & Orvell LLP*

Palatine, Illinois  
November 14, 2012

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

Honorable William G. Holland  
Auditor General  
State of Illinois

Board of Directors  
Intermediate Service Center No. 2

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Intermediate Service Center No. 2, as of and for the year ended June 30, 2011, which collectively comprise the Intermediate Service Center No. 2's basic financial statements and have issued our report thereon dated November 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

Management of Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Intermediate Service Center No. 2'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 Intermediate Service Center No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 11-2 and 11-3 in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charge with governance. We consider the deficiency described in finding 11-1 in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Intermediate Service Center No. 2'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

Intermediate Service Center No. 2's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Intermediate Service Center No. 2's responses and, accordingly, we express no opinion on them.

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

*Bass, Johnson & Donnell LLP*

Palatine, Illinois  
November 14, 2012

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

Honorable William G. Holland  
Auditor General  
State of Illinois

Board of Directors  
Intermediate Service Center No. 2

**Compliance**

We have audited the Intermediate Service Center No. 2's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Intermediate Service Center No. 2's major federal programs for the year ended June 30, 2011. The Intermediate Service Center No. 2'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 Intermediate Service Center No. 2's management. Our responsibility is to express an opinion on the Intermediate Service Center No. 2'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 Intermediate Service Center No. 2'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 Intermediate Service Center No. 2's compliance with those requirements.

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB-Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 11-1.

## Internal Control Over Compliance

Management of Intermediate Service Center No. 2 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 Intermediate Service Center No. 2's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Intermediate Service Center No. 2's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a *significant deficiency* as described in the accompanying Schedule of Findings and Questioned Costs as item 11-1. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of a compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Intermediate Service Center No. 2's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Intermediate Service Center No. 2's response and, accordingly, we express no opinion on it.

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

*Bass, Johnson & Howell LLP*

Palatine, Illinois  
November 14, 2012

## INTERMEDIATE SERVICE CENTER NO. 2

### Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2011

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#### Section I - Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  X  yes   no
- Significant deficiency(ies) identified  X  yes   none reported
- Noncompliance material to financial statements noted?  X  yes   no

##### Federal Award:

Internal Control over major programs:

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

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 Section 510(a) of OMB Circular A-133?

X  yes   no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

84.360
84.010A
84.389

High School Graduation Initiative
Title I Grants to Local Educational Agencies Cluster: Title I - School Improvement & Accountability
ARRA Title I Grants to Local Educational Agencies, Recovery Act

Dollar threshold used to distinguish between Type A and Type B programs:

\$300,000

Auditee qualified as low-risk auditee?

yes  X  no

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section II – Financial Statement Findings**

**Finding No. 11-1 – Inadequate Documentation for Payroll Expenditures**

Federal Program Name: Title I – School Improvement and Accountability  
Project No.: 2011-4331-SS  
CFDA No.: 84.010A  
Passed Through: Illinois State Board of Education  
Federal Agency: U.S. Department of Education

Federal Program Name: ARRA Title I Grants to Local Educational Agencies, Recovery Act  
Project No.: 2011-4854-00  
CFDA No.: 84.389  
Passed Through: Illinois State Board of Education  
Federal Agency: U.S. Department of Education

*Criteria/Specific Requirement :*

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

OMB Circular A-87 requires that all employee salaries and wages charged to federal grants maintain time and effort reporting. There are two types of required time and effort records; semi – annual certifications and detailed monthly reports. The type of record that must be kept is based on the job responsibilities of the individual charged to the grant. The job responsibilities are referred to as either single cost objective or multiple costs objectives. The difference between these two cost objectives is determined based on what activities an employee worked on, not how the employee is funded.

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 OMB Circular A-87, Attachment B, paragraphs 8.h.(4),(5), and (6).

*Condition :*

Intermediate Service Center No. 2 did not maintain adequate time and effort statements to allocate indirect costs in accordance with OMB Circular A-87. Salary and benefits for administrative employees were charged to the Title I – School Improvement and Accountability and ARRA Title I Grants to Local Educational Agencies, Recovery Act programs based on amounts calculated for budget purposes rather than costs based on actual time and effort reports.

*Questioned Costs:*

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section II – Financial Statement Findings (Continued)**

**Finding No. 11-1 – Inadequate Documentation for Payroll Expenditures (Continued)**

*Context:*

Intermediate Service Center No. 2 allocated a total of \$74,542 of indirect compensation costs to the above programs. While these costs were approved in the grant budgets, without acceptable documentation of the basis for, and rationale behind, the allocations, the amounts over or undercharged to the programs cannot be readily determined. Based on the total amount of allocated costs charged to the programs, any amount deemed to be overcharged to the Awards most likely would be considered immaterial.

*Effect:*

Intermediate Service Center No. 2 is not able to determine if the amount of indirect compensation charged to both Title I programs represents the grant's "fair share" of costs recognized under principles required by OMB Circular A-87. Additionally, noncompliance with Allowable Costs/Cost Principles of the Circular A-133 Compliance Supplement may result in federal funds being expended for unallowable purposes.

*Cause:*

Intermediate Service Center No. 2 determined the amount of costs to be allocated to the grant programs based on amounts allowable in grant budgets.

*Recommendation :*

Intermediate Service Center No. 2 should develop and implement adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB Circular A-87 for Compensation for Personnel Services. These policies and procedures should include requiring staff involved in multiple programs to submit time sheets by program or a time and effort report by program. Intermediate Service Center No. 2 should also establish a payroll cost allocation procedure that allows for computation and comparison of actual time charged with budgeted time or allocation rates on a regular basis. Payroll charges by program should be based on the time devoted and identified specifically to the performance of those programs.

*Management's Response:*

After reviewing the finding, Intermediate Service Center No. 2 agrees with this finding and began updating and implementing adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB A-87 for Compensation for Personnel Services. Starting fiscal year 2012, Intermediate Service Center No. 2 will be modifying the time and effort reporting and subsequent cost allocation procedures to more accurately reflect the time devoted to grant activities across multiple grant programs.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section II – Financial Statement Findings (Continued)**

**Finding No. 11-2 - Use of Designated Grant Balances**

*Criteria/Specific Requirement:*

Intermediate Service Center No. 2 runs several grant funded programs. Programs funded by State and federal grants must be tracked and maintained separately.

*Condition:*

Intermediate Service Center No. 2 pools program and local revenue into the same bank account. Cash that was granted to the Service Center, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

*Effect:*

Cash balances that were designated for specific grant programs were used to fund expenditures for purposes other than those for which the revenue source was designated.

*Cause:*

According to ISC officials, because the Intermediate Service Center is primarily funded on a reimbursement basis, the delay in funding received from the State of Illinois has caused programs which the Intermediate Service Center was already in the midst of operating to have severe cash deficits. The ISC officials stated that, to continue operating as the grant agreement stipulates, cash had to be used from other sources in order to fund expenditures that were to be reimbursed by the State.

*Recommendation:*

The Intermediate Service Center should not use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted.

*Management's Response:*

Due to an unprecedented delinquent receipt of State grant funds for FY 11 from the State of Illinois, Intermediate Service Center No. 2 was forced to use cash designated for specific purposes to cover deficit cash balances in programs other than those for which the cash was granted - i.e. for cash flow. On a quarterly basis the State of Illinois was in arrears in its payments by these amounts: 1st quarter (\$19,083) due to some front loading of budgets; 2nd quarter (\$160,032); 3rd quarter (\$322,082); and 4th quarter (\$347,492). All of the outstanding balances due Intermediate Service Center No. 2 from the State of Illinois at the end of the FY11 were paid during the 1st quarter of FY 12.

The small size of our budget cannot accommodate unreliable payments from our grantors. If unreliable payments continue, the Service Center will seek outside financing to cover any shortfalls that may exist. Cash funds will be expended only for those specific grant purposes for which they were designated.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section II – Financial Statement Findings (Continued)**

**Finding No. 11-3 – Controls Over Financial Statement Preparation**

*Criteria/Specific Requirement:*

Intermediate Service Center No. 2 (Service Center) is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Intermediate Service Center No. 2's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

*Condition:*

Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting. While the Service Center maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Service Center's accounting records, noted that material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

*Effect:*

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

*Cause:*

According to Intermediate Center No. 2's officials, although they employed a part-time Certified Public Accountant (CPA) on staff, there was not adequate funding to devote to employing a full-time CPA.

*Recommendation:*

As part of its internal control over the preparation of financial statements, including disclosures, we recommend that Intermediate Service Center No. 2 implement comprehensive preparation and/or review procedures to ensure that financial statements, including disclosures, are complete and accurate. Such procedures should be performed by a properly trained individual(s) possessing a thorough understanding of applicable generally accepted accounting principles, GASB pronouncements, and knowledge of the Intermediate Service Center's activities and operations.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section II – Financial Statement Findings (Continued)**

**Finding No. 11-3 – Controls Over Financial Statement Preparation (Continued)**

*Management's Response:*

Intermediate Service Center No. 2 had a part time CPA on staff for FY11. Budget constraints would not permit employment of a full time CPA who could provide the increasingly stringent GAAP based controls over financial statement preparation that are considered necessary. Our CPA employee left the agency at the beginning of the FY13 year and ongoing financial concerns will prohibit her replacement.

Intermediate Service Center No. 2 is confident in the abilities of the accounting/bookkeeping staff to prepare cash basis financial information as needed for reporting purposes throughout the year. In addition, the Lyons Township Treasurer's Office is involved in all financial statement preparation. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Schedule of Findings and Questioned Costs**  
Year Ended June 30, 2011

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**Section III – Federal Award Findings**

Instances of Noncompliance

**Finding No. 11-1 – Inadequate Documentation for Payroll Expenditures –  
(Finding details on pages 11 and 12)**

Significant Deficiency

**Finding No. 11-1 – Inadequate Documentation for Payroll Expenditures –  
(Finding details on pages 11 and 12)**

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Corrective Action Plan for Current Year Audit Findings**  
Year Ended June 30, 2011

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Corrective Action Plan

**Finding No. 11-1 – Inadequate Documentation for Payroll Expenditures**

Federal Program Name: Title I – School Improvement and Accountability  
Project No.: 2011-4331-SS  
CFDA No.: 84.010A  
Passed Through: Illinois State Board of Education  
Federal Agency: U.S. Department of Education

Federal Program Name: ARRA Title I Grants to Local Educational Agencies, Recovery Act  
Project No.: 2011-4854-00  
CFDA No.: 84.389  
Passed Through: Illinois State Board of Education  
Federal Agency: U.S. Department of Education

*Condition:*

Intermediate Service Center No. 2 did not maintain adequate time and effort statements to allocate indirect costs in accordance with OMB Circular A-87. Salary and benefits for administrative employees were charged to the Title I – School Improvement and Accountability and ARRA Title I Grants to Local Educational Agencies, Recovery Act programs based on amounts calculated for budget purposes rather than costs based on actual time and effort reports.

*Corrective Action Plan:*

Intermediate Service Center No. 2 agrees with this finding and began updating and implementing adequate policies and procedures to ensure compliance with the Allowable Costs/Cost Principles of the OMB Circular A-133 Compliance Supplement and Cost Principles of OMB A-87 for Compensation for Personnel Services. Starting fiscal year 2012, Intermediate Service Center No. 2 will be modifying the time and effort reporting and subsequent cost allocation procedures to more accurately reflect the time devoted to grant activities across multiple grant programs.

*Anticipated Date of Completion:*

The Center will implement the corrective action plan immediately

*Name of Contact Person:*

Linda Rogers, Financial Analyst

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Corrective Action Plan for Current Year Audit Findings**  
Year Ended June 30, 2011

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Corrective Action Plan (Continued)

**Finding No. 11-2 - Use of Designated Grant Balances**

*Condition:*

Intermediate Service Center No. 2 pools program and local revenue into the same bank account. Cash that was granted to the Service Center, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

*Corrective Action Plan:*

Due to an unprecedented delinquent receipt of State grant funds for FY 11 from the State of Illinois, Intermediate Service Center No. 2 was forced to use cash designated for specific purposes to cover deficit cash balances in programs other than those for which the cash was granted - i.e. for cash flow. On a quarterly basis the State of Illinois was in arrears in its payments by these amounts: 1st quarter (\$19,083) due to some front loading of budgets; 2nd quarter (\$160,032); 3rd quarter (\$322,082); and 4th quarter (\$347,492). All of the outstanding balances due Intermediate Service Center No. 2 from the State of Illinois at the end of the FY11 were paid during the 1st quarter of FY 12.

The small size of our budget cannot accommodate unreliable payments from our grantors. If unreliable payments continue, the Service Center will seek outside financing to cover any shortfalls that may exist. Cash funds will be expended only for those specific grant purposes for which they were designated.

*Anticipated Date of Completion:*

Immediately upon learning of oversight.

*Name of Contact Person:*

Linda Rogers, Financial Analyst

**Finding No. 11-3 - Controls Over Financial Statement Preparation**

*Condition:*

Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting. While the Service Center maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner. For example, auditors, in their review of the Service Center's accounting records, noted that material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Corrective Action Plan for Current Year Audit Findings**  
Year Ended June 30, 2011

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Corrective Action Plan (Continued)

*Corrective Action Plan:*

Intermediate Service Center No. 2 had a part time CPA on staff for FY11. Budget constraints would not permit employment of a full time CPA who could provide the increasingly stringent GAAP based controls over financial statement preparation that are considered necessary. Our CPA employee left the agency at the beginning of the FY13 year and ongoing financial concerns will prohibit her replacement.

Intermediate Service Center No. 2 is confident in the abilities of the accounting/bookkeeping staff to prepare cash basis financial information as needed for reporting purposes throughout the year. In addition, the Lyons Township Treasurer's Office is involved in all financial statement preparation. Management will pursue additional training when it is considered cost beneficial since training costs would take away from the funds available to provide educational services for the schools in the region.

*Anticipated Date of Completion:*

The Center will implement the corrective action plan immediately.

*Name of Contact Person:*

Linda Rogers, Financial Analyst.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Summary Schedule of Prior Audit Findings**  
Year Ended June 30, 2011

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<u>Finding Number</u>	<u>Condition</u>	<u>Current Status</u>
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-N/A-

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Required Supplementary Information)**

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Required Supplementary Information**  
**Management's Discussion and Analysis**  
Year Ended June 30, 2011

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As management of Intermediate Service Center No. 2 ("the Center"), we offer the readers of the financial statements this narrative overview and analysis of the financial activities of Intermediate Service Center No. 2 for the year ended June 30, 2011.

Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 issued in June 1999. Certain comparative information between the current year (2011) and the prior year (2010) is required to be presented in the MD&A and included for this reporting period.

MD&A is provided at the beginning of the report to provide an overview of Intermediate Service Center No. 2's financial position at June 30, 2011 and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the financial statements, notes to the financial statements, required and other supplementary information.

During fiscal year 2011, Intermediate Service Center No. 2 implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which required certain programs and funds to be reclassified and the restatement of beginning fund balances as detailed in Note 1 in the financial statements. Because of these reclassifications, the fund analysis is not comparable between fiscal year 2010 and fiscal year 2011.

**Using This Financial Report**

The financial section of this annual report consists of four parts – Independent Auditor's Reports, required supplementary information which includes the MD&A (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of Intermediate Service Center No. 2: 1) Government-wide financial statements and 2) fund financial statements.

**Government – Wide Financial Statements**

The first two statements are government-wide financial statements that provide both short term and long term information about Intermediate Service Center No. 2's overall financial status, similar to a private sector business. In the government-wide financial statements, activities are shown in one category – governmental activities. Intermediate Service Center No. 2's basic service is education. These activities are largely financed with local, State and federal revenues.

The Statement of Net Assets presents information on all of Intermediate Service Center No. 2'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 Intermediate Service Center No. 2 is improving or deteriorating.

The Statement of Activities presents information showing how the government's net assets changed during the most recent fiscal year. The financial statements are prepared under the accrual basis of accounting, whereby revenues and assets are recognized when earned; expenditures and liabilities are recognized when incurred.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
Year Ended June 30, 2011

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Fund Financial Statements

The fund financial statements provide more detailed information about Intermediate Service Center No. 2's funds – not Intermediate Service Center No. 2 as a whole. Funds are specific segregations of cash and accounting devices Intermediate Service Center No. 2 uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by state law, while others are established to control and manage money for particular purposes or to show that Intermediate Service Center No. 2 is properly using certain revenues.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for each. By doing so, readers may better understand the long-term impact of Intermediate Service Center No. 2's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

Intermediate Service Center No. 2 maintains various governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance for these funds. More detail of the individual revenues and expenditures for these funds is presented in the supplementary section of this report.

Intermediate Service Center No. 2 is not legally required to adopt a budget, but an annual budget is reviewed for the Education Fund. Illinois State Board of Education, a granting agency, requires the Intermediate Service Center No. 2 to adopt budgets for certain program revenues. A budgetary comparison schedule has been provided as supplementary information for the General, Education, and Nonmajor Special Revenue Funds which is in compliance with GASB Statement No. 34.

Condensed Financial Information

Net assets are summarized in the table below.

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets:		
Current Assets	\$ 689,845	\$ 830,592
Non-current Assets:		
Capital Assets	<u>252,245</u>	<u>335,414</u>
Total Assets	<u>942,090</u>	<u>1,166,006</u>
Liabilities:		
Current Liabilities	582,923	428,092
Non-current Liabilities	<u>57,992</u>	<u>118,321</u>
Total Liabilities	<u>640,915</u>	<u>546,413</u>
Net Assets:		
Investments in capital assets, net of debt	133,920	160,261
Unrestricted	(109,283)	459,332
Restricted for educational purposes	<u>276,538</u>	<u>-0-</u>
Total Net Assets	<u>\$ 301,175</u>	<u>\$ 619,593</u>

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
Year Ended June 30, 2011

Current assets consist of cash and due from other governments.

Non-current liabilities consist of long-term debt. Current liabilities consist primarily of accounts payable and the current portion of long-term debt, accrued compensated absences, and deferred revenue.

Intermediate Service Center No. 2's net assets consist of unrestricted and restricted net assets and amounts invested in capital assets net of any related debt. Unrestricted net assets represent net assets that have not been restricted by an outside party. This includes funds that have been designated for specific uses as well as amounts that are contractually committed for goods and services.

Revenues, expenses, and changes in net assets are summarized in the table below.

**Condensed Statement of Activities**  
**For Fiscal Year Ending:**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues received:		
Program:		
Operating grants and contributions	\$4,614,359	\$3,416,840
General:		
Local sources	456,643	1,013,930
On-behalf payments	155,176	158,987
Interest	8,432	5,973
Miscellaneous	<u>-0-</u>	<u>18,069</u>
Total revenue received	<u>5,234,610</u>	<u>4,613,799</u>
Expenditures disbursed:		
Instructional services:		
Instruction	201,443	429,591
Supporting Services	5,049,709	3,814,758
Community Services	-0-	1,590
Nonprogrammed Charges	146,700	71,564
Administrative services:		
On-behalf payments	<u>155,176</u>	<u>158,987</u>
Total expenditures disbursed	<u>5,553,028</u>	<u>4,476,490</u>
Change in net assets	(318,418)	137,309
Beginning net assets	<u>619,593</u>	<u>482,284</u>
Ending net assets	<u>\$ 301,175</u>	<u>\$ 619,593</u>

Major sources of operating revenues for Intermediate Service Center No. 2 include: Federal and State grants, and local tuition fees.

**Management's Analysis of the Intermediate Service Center's Overall Financial Position and Results of Operations**

As shown in the table above, the cost of governmental activities for this year was \$5,553,028. Federal and State grants financed approximately four-fifths of this or \$4,614,359. Local sources, consisting of primarily tuition, were the next largest contributor with \$456,643.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Required Supplementary Information**  
**Management's Discussion and Analysis (Continued)**  
Year Ended June 30, 2011

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**Management's Analysis of the Intermediate Service Center's Overall Financial Position and Results of Operations (Continued)**

Capital assets

The total amount invested in capital assets net of depreciation at June 30, 2011 by the Center was \$252,245.

Net assets

During the year net assets decreased \$318,418, due to the fact that expenses increased at a higher rate over revenues from a year ago. Total revenue for fiscal year ended June 30, 2010 was \$4,613,799 and increased by \$620,811 to \$5,234,610 for fiscal year ended June 30, 2011, primarily due to increased federal and state grant revenue for fiscal year ended June 30, 2011. Expenses increased by \$1,076,538 from \$4,476,490 in fiscal year ended June 30, 2010, to \$5,553,028 in fiscal year ended June 30, 2011. The factors which have contributed to this condition are explained below.

**Factors or Conditions Impacting Future Periods**

On the revenue side, State and Federal revenues increased from the prior year primarily due to new grants awarded that the Center did not receive in the prior year. Local revenues were lower in comparison to the prior year; we anticipate this trend will continue.

On the expenditure side, increased spending will force the Center to do more with less.

In summary, this expectation of continued increases in service demand will result in larger response times, reduced array of services, and the need to do more with existing human resources.

**Contacting the Intermediate Service Center's Financial Management**

This financial report is designed to provide the Intermediate Service Center No. 2's citizens, taxpayers, clients and other constituents with a general overview of its finances and to demonstrate accountability for the money it receives. If the reader has questions concerning this report or need additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 2701 W. Washington Blvd., Bellwood, IL 60104.

## **BASIC FINANCIAL STATEMENTS**

## INTERMEDIATE SERVICE CENTER NO. 2

### Statement of Net Assets

June 30, 2011

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<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash and investments	\$ 141,266
Due from other governments	<u>548,579</u>
Total current assets	<u>689,845</u>
Noncurrent assets:	
Capital Assets, being depreciated, net	<u>252,245</u>
Total assets	<u>942,090</u>
 <u>LIABILITIES</u> 	
Current Liabilities:	
Loan payable, current portion	60,333
Accounts payable	308,449
Deferred revenue	199,436
Accrued compensated absences	14,676
Accrued payroll liabilities	<u>29</u>
Total current liabilities	<u>582,923</u>
Non-current liabilities	
Loan payable	<u>57,992</u>
Total liabilities	<u>640,915</u>
 <u>NET ASSETS</u> 	
Invested capital assets, net of related debt	133,920
Unrestricted	(109,283)
Restricted for educational purposes	<u>276,538</u>
Total net assets	<u>\$ 301,175</u>

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

## INTERMEDIATE SERVICE CENTER NO. 2

### Statement of Activities Year Ended June 30, 2011

	Expenses	Program Revenues <u>Operating Grants and Contributions</u>	Net (Expense) Revenue and Changes in Net Assets <u>Primary Government Governmental Activities</u>
<b>FUNCTIONS/PROGRAMS</b>			
Primary government:			
Governmental activities:			
Instructional services:			
Instruction	\$ 201,443	\$ 190,263	\$ (11,180)
Supporting services	5,049,709	4,401,453	(648,256)
Nonprogrammed charges	146,700	22,643	(124,057)
Administrative:			
On-behalf payments	155,176		(155,176)
Total governmental activities	\$ 5,553,028	\$ 4,614,359	(938,669)
General revenues:			
Local sources			456,643
On-behalf payments			155,176
Interest			8,432
Total general revenues, special and			620,251
Change in net assets			(318,418)
Net assets - beginning			619,593
Net assets - ending			\$ 301,175

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

# INTERMEDIATE SERVICE CENTER NO. 2

## Balance Sheet Governmental Funds

June 30, 2011

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	<u>General</u> <u>Fund</u>	<u>Education</u> <u>Fund</u>	<u>Nonmajor</u> <u>Special Revenue</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b><u>ASSETS</u></b>				
Cash - Imprest fund	\$ 1,251	\$ -0-	\$ -0-	\$ 1,251
Equity in pooled cash and investments	10,425	175,247	-0-	185,672
Due from other governments	251,622	296,957	-0-	548,579
Total assets	<u>\$ 263,298</u>	<u>\$ 472,204</u>	<u>\$ -0-</u>	<u>\$ 735,502</u>
<b><u>LIABILITIES</u></b>				
Cash overdraft	\$ -0-	\$ -0-	\$ 45,657	\$ 45,657
Accounts payable	49,966	238,814	19,669	308,449
Accrued payroll liabilities	-0-	29	-0-	29
Deferred revenue	41,937	199,436	-0-	241,373
Total liabilities	<u>91,903</u>	<u>438,279</u>	<u>65,326</u>	<u>595,508</u>
<b><u>FUND BALANCE</u></b>				
Nonspendable	-0-	-0-	-0-	-0-
Restricted	200,676	33,925	-0-	234,601
Assigned	42,658	-0-	-0-	42,658
Unassigned	(71,939)	-0-	(65,326)	(137,265)
Total fund balance	<u>171,395</u>	<u>33,925</u>	<u>(65,326)</u>	<u>139,994</u>
Total liabilities and fund balance	<u>\$ 263,298</u>	<u>\$ 472,204</u>	<u>\$ -0-</u>	<u>\$ 735,502</u>

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
June 30, 2011

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Total fund balance - governmental funds	\$	139,994
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.		252,245
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		41,937
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.		(14,676)
Long-term liabilities incurred from governmental activities are not financial resources and therefore, are not reported in the funds.		<u>(118,325)</u>
Net assets of governmental activities	<u>\$</u>	<u>301,175</u>

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Governmental Funds**  
Year Ended June 30, 2011

	<u>General Fund</u>	<u>Education Fund</u>	<u>Nonmajor Special Revenue Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>				
Local Sources	\$ 245,218	\$ 133,147	\$ 78,278	\$ 456,643
State Sources	1,902,866	733,465	-0-	2,636,331
Federal Sources	-0-	2,316,772	-0-	2,316,772
Total Direct Revenues	<u>2,148,084</u>	<u>3,183,384</u>	<u>78,278</u>	<u>5,409,746</u>
On-behalf Payments	<u>155,176</u>	<u>-0-</u>	<u>-0-</u>	<u>155,176</u>
Total Revenues	<u>2,303,260</u>	<u>3,183,384</u>	<u>78,278</u>	<u>5,564,922</u>
<b><u>EXPENDITURES</u></b>				
Instruction	147,750	39,017	-0-	186,767
Support Services	1,702,603	3,121,920	142,017	4,966,540
Community Services	-0-	-0-	-0-	-0-
Nonprogrammed Charges	<u>125,425</u>	<u>21,275</u>	<u>-0-</u>	<u>146,700</u>
Total Direct Expenditures	<u>1,975,778</u>	<u>3,182,212</u>	<u>142,017</u>	<u>5,300,007</u>
On-behalf Payments	<u>155,176</u>	<u>-0-</u>	<u>-0-</u>	<u>155,176</u>
Total Expenditures	<u>2,130,954</u>	<u>3,182,212</u>	<u>142,017</u>	<u>5,455,183</u>
<b><u>OTHER FINANCING SOURCES/(USES)</u></b>				
Loan Payments-principal	(56,828)	-0-	-0-	(56,828)
Interest	<u>8,432</u>	<u>-0-</u>	<u>-0-</u>	<u>8,432</u>
Total other financing sources	(48,396)	-0-	-0-	(48,396)
Net Change in Fund Balance	123,910	1,172	(63,739)	61,343
Fund Balance, July 1, 2010 (Restated - See Note 1G)	<u>47,485</u>	<u>32,753</u>	<u>(1,587)</u>	<u>78,651</u>
Fund Balance, June 30, 2011	<u>\$ 171,395</u>	<u>\$ 33,925</u>	<u>\$ (65,326)</u>	<u>\$ 139,994</u>

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**Governmental Funds**  
Year Ended June 30, 2011

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Net change in fund balances \$ 61,343

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	\$ -0-	
Depreciation expense	(83,169)	
Net adjustment		(83,169)

The issuance of long-term debt provides current financial  
resources to governmental funds while the repayment of the  
principal of long-term debt consumes the current financial  
resources of governmental funds. Neither transaction,  
however, has any effect on net assets.

Issuance of long-term debt	-0-	
Principal payments	56,828	
		56,828

Revenues in the Statement of Activities that did not  
provide financial resources in the prior year  
and are not reported as revenues in the  
government-wide statements in the current year (380,681)

Expenditures in the Statement of Activities that do not  
require the use of current financial resources and  
therefore, are not reported as expenditures in the  
governmental funds (14,676)

Revenues in the Statement of Activities that do not  
provide current financial resources are not reported  
as revenues in the funds 41,937

Change in net assets of governmental activities \$ (318,418)

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

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Beginning on the first Monday of August 1995, each of the 45 Regional Offices of Education established pursuant to Section 3A-4 of the Illinois School Code (105 ILCS 5/3A-4) shall have an oversight board to carry out the duties and oversee the planning and delivery of programs and services as specified in the Illinois School Code (105 ILCS 5/3A-16 and 3A-17).

That portion of Cook County outside of the City of Chicago will constitute a Regional Office of Education (105 ILCS 5/3A-1) and its oversight board shall be responsible for the duties and programs specified in Section 3A-17 of the Illinois School Code and shall be administered through three (3) Intermediate Service Centers (North Cook, West Cook and South Cook).

West Cook now known as Intermediate Service Center No. 2 ("the Center") includes the area within the territorial boundaries of the following high school districts:

- Oak Park and River Forest High School District 200
- J.S. Morton High School District 201
- Lyons Township High School District 204
- Riverside Brookfield Township High School District 208
- Proviso Township High School District 209
- Leyden Community High School District 212
- Ridgewood Community High School District 234
- Elmwood Park Community Unit District 401

Intermediate Service Center No. 2 is governed by an eleven member board and the administrative agent designated for this center is Bob Healy, Lyons Township School Treasurer.

In accordance with the Illinois School Code (105 ILCS 2/3.62) the services to be made available shall include the planning, implementation and evaluation of the following:

- Education for Gifted Children
- Computer Technology Education
- Mathematics, Science and Reading Resources for teachers, including continuing education, in-service training, and staff development.

Intermediate Service Center No. 2 may also provide training, technical assistance, coordination and planning in other program areas. The State Board of Education shall promulgate rules and regulations necessary to operate Intermediate Service Center No. 2.

#### A. Reporting Entity:

Intermediate Service Center No. 2 provides educational services to member school districts and is governed by the Governing Board. Operations are conducted through one of its member districts which acts as its administrative agent.

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

A. Reporting Entity (Continued):

These financial statements include Intermediate Service Center No. 2 and its component units, entities for which it is considered financially accountable. As defined by GASB Statement 14, "The Financial Reporting Entity", Intermediate Service Center No. 2 is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with Intermediate Service Center No. 2 are such that exclusion would cause Intermediate Service Center No. 2's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, Intermediate Service Center No. 2 is not aware of any entity which would be financially accountable for Intermediate Service Center No. 2, which would result in Intermediate Service Center No. 2 being considered a component entity.

B. 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 Center.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is 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. Under the terms of the grant agreements, Intermediate Service Center No. 2 funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted funding resources available to finance the program. It is the policy of Intermediate Service Center No. 2 to first apply restricted fund balances, then unrestricted. For unrestricted fund balances, committed fund balances are used first, then assigned fund balances, then unassigned if any.

The Statement of Net Assets presents information on all Intermediate Service Center No. 2'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 Intermediate Service Center No. 2 is improving or deteriorating. The net assets of the Intermediate Service Center are classified as follows:

*Invested in Capital Assets* – represents the Center's total investment in capital assets. The outstanding debt related to these assets was \$118,325 at June 30, 2011.

*Unrestricted Net Assets* – represent resources used for transactions relating to the general operations of the Center and may be used at the discretion of management to meet expenses for any purpose.

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

B. Government-Wide and Fund Financial Statements (Continued):

*Restricted Net Assets* – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Presentation:

The accounts of Intermediate Service Center No. 2 are organized and operated on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. Resources are allocated to and accounted for in individual funds as required by the State of Illinois based upon the purposes for which they are spent and the means by which spending activities are controlled.

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

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

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

Restricted Fund Balance – the portion of a Governmental Fund's net assets that are subject to external enforceable legal restrictions. The following account fund balances are restricted by grant agreements or contracts: Regional Safe Schools, Social Emotional Learning, State Free Lunch and Breakfast, Preschool, ISC Operations, Beginning Teacher Induction Pilot Program, Gifted Education, Learn and Serve America, ARRA Title I Grants to Local Educational Agencies, Recovery Act, ARRA Education Jobs Fund, School Breakfast Program, National School Lunch Program, Title I - School Improvement and Accountability, McKinney Education for Homeless Children, High School Graduation Initiative, Title II – Teacher Quality–Leadership Grant, Title I - Reading First Part B SEA Funds, and Institute. Although the Institute Fund is restricted per Illinois Statute, it has been deemed unassigned due to a negative fund balance.

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

Assigned Fund Balance – the portion of a Governmental Fund's net assets to denote an intended use of resources. The accounts presented with assigned fund balances are specified for a particular purpose by the Executive Director. The assigned fund balance is made up of local revenue that has been specifically assigned by the Executive Director to support the federal and state grant programs.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

C. Measurement Focus and Basis of Presentation (Continued):

Unassigned Fund Balance – available expendable financial resources in a governmental fund that are not designated for a specific purpose. The unassigned fund balance is made up of the General State Aid, tuition monies for teachers, and administrator workshops in the General Fund, and the Institute activity in the Non-Major Special Revenue fund.

Intermediate Service Center No. 2 reports the following major governmental Funds:

The General Fund: The General Fund is the operating fund of Intermediate Service Center No. 2. It is used to account for all financial resources within the territorial boundaries of the Center except those required to be accounted and reported for in another fund. General Funds include the following:

General State Aid: This program is for students placed in Regional Safe Schools. Districts give up their General State Aid claim for the students while placed in the Regional Safe Schools program.

Regional Safe Schools Program: Alternative program created through state legislation for students in grades 6 through 12 that have multiple suspensions or that have been expelled from their district. Eligible students are administratively transferred from their district into this program.

Local Sources: These are revenues and expenditures associated with workshops conducted by Intermediate Service Center No. 2.

The Education Fund: This Fund is used to account for and report proceeds of specific revenue sources that are restricted by grant requirements or contracts to expenditures for specified purposes supporting education enhancement programs. Grants that are accounted for and included in the Education Fund in the financial statements are as follows:

West Cook Math Initiative: A partnership among West Cook County districts to improve the teaching and learning of mathematics in grades six through nine.

Social Emotional Learning: Grant designed to help schools implement the Illinois Social Emotional Learning Standards.

State Free Lunch & Breakfast: A voluntary program available to all public schools, private schools, and residential child care institutions which agree to operate a non-profit program offering lunches and breakfasts meeting federal requirements to all children in attendance.

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

C. Measurement Focus and Basis of Presentation (Continued):

I.S.C. Operations: Program monies for Center administrative operations. Program funding is used to keep offices open in order to provide professional development to teachers in the area.

Beginning Teacher Induction Program: Provides induction and mentoring programs for new teachers in school districts across the State.

Gifted Education: Block grants of funding received from the State of Illinois, which can be used to fund all aspects of education.

Learn and Serve America: A program comprised of community service activities for students aligned to school curriculum.

ARRA Title I Grants to Local Educational Agencies, Recovery Act: Funds are used to help local educational agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic achievement standards.

ARRA Education Jobs Fund: The objective of this program is to assist local educational agencies (LEAs) in saving or creating education jobs for school year 2010-2011.

School Breakfast Program: Provides cash assistance to States to operate nonprofit breakfast programs in schools and residential childcare institutions.

National School Lunch Program: A voluntary program available to all public schools, private schools, and residential child care institutions which agree to operate a non-profit program offering lunches meeting federal requirements to all children in attendance.

Title I – School Improvement and Accountability: This program provides direct technical assistance to schools and districts in academic status. The program provides funds to put school support teams (educational advisors) in each school in academic trouble.

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

High School Graduation Initiative: Awards discretionary grants to State educational agencies (SEAs) and local educational agencies (LEAs) to support the implementation of effective, sustainable, and coordinated dropout prevention and re-entry programs in high schools with annual dropout rates that exceed their state average annual dropout rate. Funds also may be used to support activities at middle schools that feed into high schools that have dropout rates that exceed the State average annual rate.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

C. Measurement Focus and Basis of Presentation (Continued):

Title II – Teacher Quality – Leadership Grant: This program provides professional development for teachers in schools that are in status. This program provides funding to help offset the cost of training teachers.

Title I – Reading First Part B SEA Funds: Funding which provides reading support to teachers in schools that are having academic difficulty and that have a high incidence of low income students. Reading First regions are identified by ISBE and funding goes to those agencies identified by the State.

Nonmajor Special Revenue Funds: Institute Funds are used to account for and report the proceeds of specific revenue sources (other than fiduciary or major capital projects) that are restricted to expenditures for specified purposes. This fund includes the following:

Institute: Accounts for fees collected for the registration and renewal of teaching certificates. These fees are used to defray administrative expenses incidental to teachers' institutes, workshops, or meetings of a professional nature that are designed to promote the professional growth of teachers or to defray the expense of any general or special meeting of teachers or school personnel. All funds generated remain restricted until expended only on the aforementioned activities.

D. Basis of Accounting:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met. Revenues received more than 60 days after the end of the current period are deferred in the governmental fund financial statements, but are recognized as current revenues in the government-wide financial statements.

The modified accrual basis of accounting is followed by the Governmental fund, which is in conformity with the Illinois Program Accounting Manual for Local Education Agencies and accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, that is, when they become both "Measurable" and "Available" to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

E. Budgets and Budgetary Accounting:

Although the operating budget was reviewed, Intermediate Service Center No. 2 did not formally adopt a budget for the year ended June 30, 2011 and is not legally required to do so. However, the Illinois State Board of Education requires budgets for certain State and Federal programs. These budgets, along with the budgets for the local revenue and expenditures were used to prepare the Budgetary Comparison Schedule of the Education Fund.

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

E. Budgets and Budgetary Accounting (Continued):

Federal grants administered that have budgets are as follows: Learn and Serve America, ARRA Title I Grants to Local Educational Agencies, Recovery Act, ARRA Education Jobs Fund, Title I – School Improvement and Accountability, McKinney Education for Homeless Children, High School Graduation Initiative, Title II – Teacher Quality–Leadership Grant, and Title I – Reading First Part B SEA Funds.

State grants administered that have budgets are as follows: General State Aid, Regional Safe Schools Program, Social Emotional Learning, Preschool, Intermediate Service Center Operations, Beginning Teacher Induction Pilot Program, and Gifted Education. Local sources administered that have budgets are as follows: Services provided to other LEA’s, West Cook Math Initiative, and Institute.

F. Cash and Investments in the Custody of the Township School Treasurer:

The Lyons Township School Treasurer (Treasurer), a separate legal governmental agency, serves as the Treasurer as prescribed by the Illinois School Code and the Illinois Compiled Statutes. In addition to Intermediate Service Center No. 2, the Treasurer serves other districts. Cash from all districts is combined by the Treasurer and excess cash is invested as authorized by law. Because there is no specific identification of investments by individual districts, interest earned on investments is allocated monthly to the various districts based upon their average monthly cash and investment balances. The Treasurer is authorized by state statutes and local ordinances, to invest on behalf of the district in obligations of: U.S. Treasury agencies backed by the full faith and credit of the U.S. Government, certificates of deposit issued by commercial banks and savings and loan associations, and commercial paper rated within the three highest classifications by at least two standard rating services.

Because all cash and investments are pooled by a separate legal governmental agency (Treasurer) categorization by risk category is not determinable. Further information regarding collateralization of investments and insurance is available from the Treasurer’s financial statements. During the year \$8,432 in interest was credited to Intermediate Service Center No. 2.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits in custody of Center	<u>\$ 1,251</u>	<u>\$ 1,251</u>
Equity in pooled cash and investments of Lyons Township School Treasurer	<u>\$ 140,015</u>	<u>\$ 140,015</u>

The bank deposits shown above were fully covered by depository insurance.

*Interest Rate Risk.* The Treasurer’s investment policy seeks to ensure preservation of capital in the Treasurer’s overall portfolio. The safety of principal is the foremost objective of the Treasurer’s investment program. The policy requires operating funds to be invested primarily in shorter-term securities, money market mutual funds, or similar investment pools. In addition, the policy requires the Treasurer’s investment portfolio to be sufficiently liquid to enable both the Treasurer and the participating districts to meet all operating requirements as they come due.

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

##### F. Cash and Investments in the Custody of the Township School Treasurer (Continued):

*Credit Risk.* State law limits investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized rating organizations (NRSRO's).

The Treasurer's investment policy further minimizes credit risk by pre-qualifying the financial institutions, brokers, dealers, intermediaries, and advisors with which the Treasurer does business. Allowable investments include the following:

- Bonds, notes, certificates of indebtedness, treasury bills, or other securities guaranteed by the full faith and credit of the United States of America.
- Bonds, notes, debentures, or other similar obligations of the United States of America or its agencies.
- Interest bearing savings accounts, certificates of deposit, or time deposits constituting direct obligations of any bank as defined by the Illinois Banking Act.
- Collateralized repurchase agreements which conform to the requirements of section 2(g) or 2(h) of the Illinois Public Funds Investment Act.
- Money market mutual funds registered under the Investment Company Act of 1940.
- Federal Deposit Insurance Corp. (FDIC) banks, short-term discount obligations of the Federal National Mortgage Association, and securities issuable by savings banks or savings and loan associations insured by the FDIC.
- Short-term obligations of corporations (commercial paper) organized in the United States of America with assets exceeding \$500,000,000 and one of the three highest rating classifications of at least two standard services.
- Illinois Public Treasurer's Investment Pool.

As of June 30, 2011, all the Treasurer's investments exposed to credit risk had an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's.

##### G. Reclassifications :

Certain fund balance classifications in the 2010 financial statements have been reclassified to conform to the 2011 presentation with no effect on previously reported changes in net assets.

##### H. Capital Assets:

Capital assets used in governmental fund types are recorded in the government-wide financial statements at a cost or estimated historical cost if purchased or constructed. Intermediate Service Center No. 2 capitalizes those fixed assets with a cost of \$1,500 or more. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. All capital assets, except for construction in progress, are being depreciated using the straight-line method over the following useful life:

Equipment & Leasehold Improvements	7 years
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Capital assets in the governmental fund financial statements are reported as expenditures when incurred.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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H. Capital Assets (Continued):

The governmental activities capital asset activity for the year ended June 30, 2011 is as follows:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2011</u>
<b>Cost:</b>				
Equipment & Leasehold Improvements	\$1,220,974	\$ -0-	\$ -0-	\$1,220,974
<b>Accumulated Depreciation:</b>				
Equipment	<u>\$ 885,560</u>	<u>\$ 83,169</u>	<u>\$ -0-</u>	<u>\$ 968,729</u>
<b>Total Capital Assets, Net:</b>				
Equipment	<u>\$ 335,414</u>	<u>\$ (83,169)</u>	<u>\$ -0-</u>	<u>\$ 252,245</u>

Depreciation expense was charged to governmental functions as follows:

Supporting Services	<u>\$ 83,169</u>
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I. Compensated Absences:

Intermediate Service Center No. 2's full time staff members working on a 12 month position shall receive 20 days of vacation per year immediately upon hire. Vacation time for part-time employees is earned throughout the year on a prorated basis. 10 month employees are not entitled to earn vacation time. Vacation days in one fiscal year must be used by the end of that fiscal year.

With the prior approval of the Executive Director, up to 15 days may be carried over from year to year, but all vacation carried over must be taken within the first 6 months of the next fiscal year. For the year ended June 30, 2011, the Executive Director granted a total of 73 days or \$14,676 in vacation accruals and thus, a liability has been accrued.

2. RISK MANAGEMENT:

Intermediate Service Center No. 2 is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which it carries commercial insurance through the Collective Liability Insurance Cooperative.

3. RETIREMENT FUND COMMITMENTS:

A. Teacher's Retirement System of the State of Illinois:

Intermediate Service Center No. 2 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 the primary responsibility for funding the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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3. RETIREMENT FUND COMMITMENTS (Continued):

A. Teacher's Retirement System of the State of Illinois (Continued):

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

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

- *On behalf contributions to TRS.* The State of Illinois makes employer pension contributions on behalf of the Center. For the year ended June 30, 2011, State of Illinois contributions were based on 23.10 percent of creditable earnings not paid from federal funds, and the Center recognized revenue and expenditures of \$149,481 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2010 and June 30, 2009, the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 23.38 percent (\$153,473) and 17.08 percent (\$120,672), respectively.

Intermediate Service Center No. 2 makes other types of employer contributions directly to TRS.

- *2.2 formula contributions.* Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. This rate is specified by statute. Contributions for the year ended June 30, 2011 were \$5,291. Contributions for the years ending June 30, 2010 and June 30, 2009, were \$5,809 and \$6,097, respectively.
- *Federal and special trust fund contributions.* When TRS members are paid from federal and special trust funds administered by the Center, there is a statutory requirement for the Center to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective for the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and special trust funds will be the same as the state contribution rate to TRS. For the year ended June 30, 2011, the employer pension contribution was 23.10 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2010 and 2009, the employer contribution was 23.38 and 17.08 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2011, salaries totaling \$265,086 were paid from federal and special trust funds that required employer contributions of \$61,235. For the years ended June 30, 2010 and June 30, 2009, required Center contributions were \$80,692 and \$58,838, respectively.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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3. RETIREMENT FUND COMMITMENTS (Continued):

A. Teacher's Retirement System of the State of Illinois (Continued):

- *Early Retirement Option (ERO).* The Center is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member. The Maximum employer ERO contribution is 117.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2011, the Center paid \$-0- to TRS for employer contributions under the ERO program. For the years ended June 30, 2010 and June 30, 2009, the Center paid \$-0- and \$-0- in employer ERO contributions, respectively.
- *Salary increased over 6 percent and excess sick leave.*

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

For the year ended June 30, 2011, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent. For the year ended June 30, 2010 and June 30, 2009, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent, respectively.

If an employer grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the employer makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary used to calculate final average salary, and the TRS total normal cost rate (18.03 percent of salary during the year ended June 30, 2011, as recertified pursuant to Public Act 96-1511).

For the year ended June 30, 2011, the Center paid \$-0- to TRS for sick leave days granted in the excess of the normal annual allotment. For the year ended June 30, 2010 and June 30, 2009, the Center paid \$-0- in employer contributions granted for sick leave days, respectively.

TRS financial information, an explanation of TRS's benefits, and descriptions of member, employer and state funding requirements can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2010. The report for the year ended June 30, 2011, is expected to be available in late 2011. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, 2815 West Washington Street, P.O. Box 19253, Springfield, Illinois 62794-9253. The most current report is also available on the TRS web site at <http://trs.illinois.gov>.

B. Illinois Municipal Retirement Fund:

The IMRF is an agent-multiple-employer public employee retirement system that acts as a common investment and administrative agent for local governments and school districts in Illinois.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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3. RETIREMENT FUND COMMITMENTS (Continued):

B. Illinois Municipal Retirement Fund (Continued):

All employees hired in positions that do not require teacher certification, and that meet or exceed the prescribed annual hourly standard, must be enrolled in IMRF as participating members. IMRF also provides death and disability benefits. These benefit provisions and all other requirements are established by state statute.

Employees were considered by the Illinois Municipal Retirement Fund to be employees of Riverside Brookfield School District 208 through May, 2004. Effective June 1, 2004, employees are considered by the Illinois Municipal Retirement Fund to be employees of LaGrange Highlands School District #106.

Participating members are required to contribute 4.5% of their salary to IMRF. Intermediate Service Center No. 2 is required to contribute the remaining amounts necessary to fund the IMRF, using the actuarial funding method specified by statute. Information regarding IMRF, including its funding status and progress are available, in the IMRF Comprehensive Annual Financial Report and the published financial statements of Riverside Brookfield School District #208 and LaGrange Highlands School District #106.

However, during the year, Intermediate Service Center No. 2 paid to the School Districts, as their share of the cost for participating employees, the sum of \$223,587.

C. Social Security:

Employees not qualifying for coverage under the Illinois Teacher's Retirement System or the Illinois Municipal Retirement Fund are considered "non-participating employees". These employees and those qualifying for coverage under the Illinois Municipal Retirement Fund are covered under Social Security. Intermediate Service Center No. 2 paid \$139,045, the total required contribution for the current fiscal year.

D. Teacher Health Insurance Security Fund:

Intermediate Service Center No. 2 participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multi-employer defined benefit postemployment healthcare plan that was established by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The THIS Fund provides medical, prescription, and behavioral health benefits, but does not provide vision, dental, or life insurance benefits to annuitants of the Teachers' Retirement System (TRS). Annuitants may participate in the state administered participating provider option plan or choose from several managed care options.

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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3. RETIREMENT FUND COMMITMENTS (Continued):

D. Teacher Health Insurance Security Fund (Continued):

On-behalf Contributions to THIS Fund

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

The State of Illinois makes employer retiree health insurance contributions on behalf of Intermediate Service Center No. 2. State contributions are intended to match contributions to THIS Fund from active members which were 0.88 percent of pay during the year ended June 30, 2011. State of Illinois contributions were \$5,695, and Intermediate Service Center No. 2 recognized revenue and expenditures of this amount during the year.

State contributions intended to match active member contributions during the year ended June 30, 2010 was 0.84 percent of pay or \$5,514. Had Intermediate Service Center No. 2 recognized revenue and expenditures for State contributions intended to match active member contributions during the year ended June 30, 2009, under the current standards, the contribution match would have been 0.84 percent of pay or \$5,935.

Employer Contributions to THIS Fund

Intermediate Service Center No. 2 also makes contributions to THIS Fund. The Center THIS Fund contribution was 0.66 percent during the years ended June 30, 2011 and 0.63 percent during the years June 30, 2010, and June 30, 2009. For the year ended June 30, 2011, Intermediate Service Center No. 2 paid \$4,271 to the THIS Fund. For the years ended June 30, 2010 and June 30, 2009, the Center paid \$4,135 and \$4,451 to the THIS Fund, respectively, which was 100 percent of the required contribution.

Further information on THIS Fund

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

4. ON-BEHALF CONTRIBUTIONS:

The State of Illinois paid the following retirement and other postemployment benefits on-behalf of Intermediate Service Center No. 2:

TRS Pension Contribution	\$ 149,481
Teachers' Health Insurance Security	<u>5,695</u>
	<u>\$ 155,176</u>

These amounts have been recorded in the accompanying financial statements as State revenue and expenditures.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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5. DUE FROM/TO OTHER GOVERNMENTS:

The Intermediate Service Center #2's Special Revenue Fund and various grant programs have funds due to and due from various other governmental units which consist of the following:

Accounts Receivable – Government Claims:

Title I – School Improvement Grants, Recovery Act	\$ 199,478
Regional Safe Schools Programs	251,622
ROE/ISC Operations	72,444
McKinney Education for Homeless Children	6,533
High School Graduation Initiative	40
Beginning Teacher Induction Pilot Program	<u>18,462</u>
	<u>\$ 548,579</u>

Included in accounts payable is \$44,104 due to Intermediate Service Center No. 4 for expenses paid on behalf of Intermediate Service Center No. 2 related to the Health and Life Safety program.

6. DEFERRED REVENUE:

Deferred revenue is recognized in programs where program monies have been received but not yet spent. The following programs recognized deferred revenue at June 30, 2011:

Title I – School Improvement & Accountability	\$ 198,160
Learn and Serve America	<u>1,276</u>
	<u>\$ 199,436</u>

7. NON-CANCELABLE OPERATING LEASES:

Lease Commitment – Oak Park:

On October 17, 2006 a new lease agreement was entered into for property located in Oak Park, Illinois. Effective September 19, 2011 this lease was renewed for an additional eight months ending on June 30, 2012. The lease required the following rental terms:

November 1, 2006 through October 31, 2007	\$14,026 per month
November 1, 2007 through October 31, 2008	\$14,517 per month
November 1, 2008 through October 31, 2009	\$15,025 per month
November 1, 2009 through October 31, 2010	\$15,551 per month
November 1, 2010 through October 31, 2011	\$16,095 per month
November 1, 2011 through June 30, 2012	\$16,095 per month

The lease carries no restrictions on the financial operating policies of the Center.

Minimum future rental payments under the non-cancelable lease as of June 30, 2011 are as follows:

Year Ended	
<u>June 30</u>	
2012	<u>\$ 193,140</u>

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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7. NON-CANCELABLE OPERATING LEASES (Continued):

Lease Commitment - Lyons:

On September 1, 2007 a new lease agreement was entered into for property located in Lyons, Illinois. The lease required the following rental terms:

September 1, 2007 to July 31, 2008	\$4,393 per month
August 1, 2008 to July 31, 2009	\$4,525 per month
August 1, 2009 to July 31, 2010	\$4,706 per month

Effective July 28, 2010 this lease was renewed for an additional three years ending on July 31, 2013. The lease requires the following rental terms:

August 1, 2010 to July 31, 2011	\$4,894 per month
August 1, 2011 to July 31, 2012	\$5,090 per month
August 1, 2012 to July 31, 2013	\$5,293 per month

The Center is also responsible for maintenance, insurance, and real estate taxes.

The lease carries no restrictions on the financial operating policies of the Center.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2011 are as follows:

Year Ended	
<u>June 30</u>	
2012	\$ 60,879
2013	63,315
2014	<u>5,293</u>
	<u>\$ 129,487</u>

Lease Commitment - Bellwood:

On June 9, 2008 the Center entered into a five year lease agreement with Washington Commons LLC, for office space located in Bellwood, IL. The lease expires October 31, 2013. The terms of the agreement provide for monthly rent payments of \$10,000 due on or before the first of each month. Upon execution of the lease, the Center remitted to the lessor a payment in the amount of \$10,000, which represents the first months rent. The lease has a renewal option for five years.

Minimum future rental payments under the non-cancelable lease which has a term in excess of 1 year as of June 30, 2011 for each of the next three years are as follows:

Year Ended	
<u>June 30</u>	
2012	\$120,000
2013	120,000
2014	<u>40,000</u>
	<u>\$280,000</u>

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to Basic Financial Statements**  
June 30, 2011

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8. LONG-TERM DEBT:

During the fiscal year ended June 30, 2009, the Center borrowed \$233,026 from a local bank. The purpose of this loan was for building improvements to the Administrative Office located in Bellwood, Illinois. During the fiscal year ended June 30, 2010, an additional \$4,306 was advanced on this note and the maturity date was extended an additional month.

Local bank,	
Interest at 6.0%, four year term,	
due in monthly installments of \$5,483,	
due June 1, 2013	\$ 57,992
Current portion	<u>60,333</u>
	<u>\$ 118,325</u>

Interest expense of \$8,963 from this loan is included in purchased services.

Future minimum loan payments and scheduled interest due under the loan are as follows:

Fiscal Year	<u>Principal</u>	<u>Interest</u>
<u>Ended</u>		
2012	\$ 60,333	\$ 5,458
2013	<u>57,992</u>	<u>1,740</u>
	<u>\$ 118,325</u>	<u>\$ 7,198</u>

9. NEW ACCOUNTING PRONOUNCEMENTS:

Effective for the year ending June 30, 2011, the Center adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In addition, this Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The implementation of GASB Statement No. 54 changed fund balance reporting for governmental funds by adding some additional fund balance classifications, clarifying governmental fund type definitions, and providing additional disclosures on how fund balance constraints are imposed and may be modified or eliminated.

Effective for the year ending June 30, 2011, the Center adopted GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2011, the Center adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncement issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. There was no significant impact on the Center's financial statements as a result of adopting this statement.

## INTERMEDIATE SERVICE CENTER NO. 2

### Notes to Basic Financial Statements

June 30, 2011

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10. OTHER REQUIRED FUND DISCLOSURES:

Deficit fund balances at June 30, 2011 are as follows:

Nonmajor Special Revenue Fund	\$65,326
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The deficit fund balance is due to the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which require that grant revenue can only be recognized when collected during the fiscal year or collected soon after the end of the fiscal year to be available to pay the liabilities of the current fiscal period. It is expected that this deficit will continue into the future.

11. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through November 14, 2012, the date on which the financial statements were available to be issued.

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

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Budgetary Comparison Schedule**  
**General Fund**  
Year Ended June 30, 2011

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	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>			
Local Sources			
Services Provided Other LEA's	\$ 885,300	\$ 245,218	\$ (640,082)
Total Local Sources	<u>885,300</u>	<u>245,218</u>	<u>(640,082)</u>
State Sources			
General State Aid	709,400	1,290,947	581,547
Regional Safe Schools Program	<u>377,436</u>	<u>611,919</u>	<u>234,483</u>
Total State Sources	<u>1,086,836</u>	<u>1,902,866</u>	<u>816,030</u>
Total Direct Revenues	<u>1,972,136</u>	<u>2,148,084</u>	<u>175,948</u>
On-behalf Payments	<u>-0-</u>	<u>155,176</u>	<u>155,176</u>
Total Revenues	<u>1,972,136</u>	<u>2,303,260</u>	<u>331,124</u>

## INTERMEDIATE SERVICE CENTER NO. 2

### Budgetary Comparison Schedule

#### General Fund (Continued)

Year Ended June 30, 2011

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Instruction			
Salaries	128,479	110,319	18,160
Employee Benefits	16,795	14,086	2,709
Purchased Services	19,600	17,838	1,762
Supplies and Materials	5,000	5,507	(507)
Capital Outlay	-0-	-0-	-0-
Total Instruction	<u>169,874</u>	<u>147,750</u>	<u>22,124</u>
Support Services			
Pupils			
Attendance and Social Work Services			
Purchased Services	<u>1,500</u>	<u>713</u>	<u>787</u>
Total Pupils	<u>1,500</u>	<u>713</u>	<u>787</u>
Instructional Staff			
Improvement of Instruction Services			
Salaries	765,000	658,435	106,565
Employee Benefits	171,250	153,996	17,254
Purchased Services	735,490	620,551	114,939
Supplies and Materials	57,100	47,055	10,045
Capital Outlay	2,000	-0-	2,000
Other Objects	8,100	6,597	1,503
Non-Capitalized Equipment	<u>120,000</u>	<u>-0-</u>	<u>120,000</u>
Total Instructional Staff	<u>1,858,940</u>	<u>1,486,634</u>	<u>372,306</u>
General Administration			
Board of Education Services			
Salaries	10,612	10,632	(20)
Employee Benefits	3,077	3,211	(134)
Purchased Services	3,000	3,213	(213)
Office of Principal Services			
Salaries	179,549	179,549	-0-
Employee Benefits	<u>13,723</u>	<u>12,929</u>	<u>794</u>
Total General Administration	<u>209,961</u>	<u>209,534</u>	<u>427</u>

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Budgetary Comparison Schedule**  
**General Fund (Continued)**  
Year Ended June 30, 2011

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Business			
Fiscal Services			
Salaries	4,782	4,610	172
Employee Benefits	1,119	1,112	7
Total Business	<u>5,901</u>	<u>5,722</u>	<u>179</u>
Other Support Services			
Employee Benefits	-0-	-0-	-0-
Supplies and Materials	-0-	-0-	-0-
Total Other Support Services	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Support Services	<u>2,076,302</u>	<u>1,702,603</u>	<u>373,699</u>
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	-0-	-0-	-0-
Other Objects	-0-	125,425	(125,425)
Total Nonprogrammed Charges	<u>-0-</u>	<u>125,425</u>	<u>(125,425)</u>
Total Direct Expenditures	<u>2,246,176</u>	<u>1,975,778</u>	<u>270,398</u>
On-behalf Payments	<u>-0-</u>	<u>155,176</u>	<u>(155,176)</u>
Total Expenditures	<u>2,246,176</u>	<u>2,130,954</u>	<u>115,222</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (274,040)</u>	172,306	<u>\$ 446,346</u>
 <b><u>OTHER FINANCING SOURCES/(USES)</u></b>			
Loan Payments-principal		\$ (56,828)	
Interest		<u>8,432</u>	
Total other financing sources (uses)		(48,396)	
Net change in fund balances		123,910	
Fund Balance, July 1, 2010 (Restated - See Note 1G)		<u>47,485</u>	
Fund Balance, June 30, 2011		<u>\$ 171,395</u>	

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Budgetary Comparison Schedule**  
**Education Fund**  
Year Ended June 30, 2011

<u>REVENUES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Local Sources</b>			
West Cook Math Initiative	\$ 171,325	\$ 133,147	\$ (38,178)
Total Local Sources	<u>171,325</u>	<u>133,147</u>	<u>(38,178)</u>
<b>State Sources</b>			
Social Emotional Learning	67,916	149,416	81,500
State Free Lunch and Breakfast	-0-	379	379
Preschool	19,790	39,130	19,340
I.S.C. Operations	237,507	274,614	37,107
Beginning Teacher Induction Pilot Program	53,426	99,031	45,605
Gifted Education	<u>303,965</u>	<u>170,895</u>	<u>(133,070)</u>
Total State Sources	<u>682,604</u>	<u>733,465</u>	<u>50,861</u>
<b>Federal Sources</b>			
Learn and Serve America	12,500	12,719	219
ARRA Title I Grants to Local Educational Agencies, Recovery Act	400,000	400,000	-0-
ARRA Education Jobs Fund	64,591	64,591	-0-
School Breakfast Program	-0-	4,591	4,591
National School Lunch Program	-0-	6,562	6,562
Title I - School Improvement and Accountability	1,458,116	939,316	(518,800)
McKinney Education for Homeless Children	85,500	83,483	(2,017)
High School Graduation Initiative	1,461,636	577,691	(883,945)
Title II - Teacher Quality - Leadership Grant	147,493	36,993	(110,500)
Title I - Reading First Part B SEA Funds	<u>216,515</u>	<u>190,826</u>	<u>(25,689)</u>
Total Federal Sources	<u>3,846,351</u>	<u>2,316,772</u>	<u>(1,529,579)</u>
Total Direct Revenues	<u>4,700,280</u>	<u>3,183,384</u>	<u>(1,516,896)</u>
On-behalf Payments	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Revenues	<u>4,700,280</u>	<u>3,183,384</u>	<u>(1,516,896)</u>

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Budgetary Comparison Schedule**  
**Education Fund (Continued)**  
Year Ended June 30, 2011

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b>Instruction</b>			
Salaries	5,000	29,300	(24,300)
Employee Benefits	-0-	2,628	(2,628)
Purchased Services	-0-	2,500	(2,500)
Supplies and Materials	5,000	4,589	411
Total Instruction	<u>10,000</u>	<u>39,017</u>	<u>(29,017)</u>
<b>Support Services</b>			
<b>Pupils</b>			
<b>Attendance and Social Work Services</b>			
Salaries	-0-	99,625	(99,625)
Employee Benefits	-0-	7,705	(7,705)
Purchased Services	71,150	-0-	71,150
Supplies and Materials	1,000	284	716
Capital Outlay	2,800	1,896	904
Total Pupils	<u>74,950</u>	<u>109,510</u>	<u>(34,560)</u>
<b>Instructional Staff</b>			
<b>Improvement of Instruction Services</b>			
Salaries	1,390,605	1,173,777	216,828
Employee Benefits	424,880	325,375	99,505
Purchased Services	1,037,360	985,531	51,829
Supplies and Materials	114,755	237,615	(122,860)
Capital Outlay	3,711	6,744	(3,033)
Other Objects	-	356	(356)
Non-Capitalized Equipment	1,250	1,250	-0-
Total Instructional Staff	<u>2,972,561</u>	<u>2,730,648</u>	<u>241,913</u>
<b>General Administration</b>			
<b>Board of Education Services</b>			
Salaries	194,531	131,679	62,852
Employee Benefits	31,614	30,566	1,048
Purchased Services	6,160	17,132	(10,972)
Supplies and Materials	590	811	(221)
Total General Administration	<u>232,895</u>	<u>180,188</u>	<u>52,707</u>

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Budgetary Comparison Schedule**  
**Education Fund (Continued)**  
Year Ended June 30, 2011

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Business			
Fiscal Services			
Salaries	10,000	7,434	2,566
Employee Benefits	2,460	3,644	(1,184)
Purchased Services	10,000	-0-	10,000
Pupil Transportation			
Purchased Services	500	313	187
Planning, Research, Development & Evaluation Services			
Purchased Services	50	25	25
Information Services			
Purchased Services	750	851	(101)
Supplies and Materials	1,200	1,396	(196)
Total Business	<u>24,960</u>	<u>13,663</u>	<u>11,297</u>
Other Support Services			
Salaries	41,830	37,091	4,739
Employee Benefits	15,121	9,952	5,169
Purchased Services	32,862	38,643	(5,781)
Supplies and Materials	-0-	2,100	(2,100)
Other Objects	-0-	125	(125)
Total Other Support Services	<u>89,813</u>	<u>87,911</u>	<u>1,902</u>
Total Support Services	<u>3,395,179</u>	<u>3,121,920</u>	<u>273,259</u>
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	66,482	21,275	45,207
Total Direct Expenditures	<u>3,471,661</u>	<u>3,182,212</u>	<u>289,449</u>
On-behalf Payments	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>3,471,661</u>	<u>3,182,212</u>	<u>289,449</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 1,228,619</u>	1,172	<u>\$ (1,227,447)</u>
Fund Balance, July 1, 2010 (Restated - See Note 1G)		<u>32,753</u>	
Fund Balance, June 30, 2011		<u>\$ 33,925</u>	

## INTERMEDIATE SERVICE CENTER NO. 2

### Budgetary Comparison Schedule

### Nonmajor Special Revenue Fund

Year Ended June 30, 2011

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<b><u>REVENUES</u></b>			
Local Sources			
Institute	\$ 58,000	\$ 78,278	\$ 20,278
Total Local Sources	<u>58,000</u>	<u>78,278</u>	<u>20,278</u>
Total Direct Revenues	<u>58,000</u>	<u>78,278</u>	<u>20,278</u>
On-behalf Payments	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Revenues	<u>58,000</u>	<u>78,278</u>	<u>20,278</u>
<b><u>EXPENDITURES</u></b>			
Support Services			
Instructional Staff			
Improvement of Instruction Services			
Salaries	-0-	96,515	(96,515)
Employee Benefits	-0-	24,286	(24,286)
Purchased Services	18,000	11,702	6,298
Supplies and Materials	<u>1,500</u>	<u>823</u>	<u>677</u>
Total Instructional Staff	<u>19,500</u>	<u>133,326</u>	<u>(113,826)</u>
General Administration			
Board of Education Services			
Purchased Services	-0-	7,346	(7,346)
Supplies and Materials	-0-	532	(532)
Capital Outlay	<u>-0-</u>	<u>813</u>	<u>(813)</u>
Total General Administration	<u>-0-</u>	<u>8,691</u>	<u>(8,691)</u>
Total Support Services	<u>19,500</u>	<u>142,017</u>	<u>(122,517)</u>
Total Direct Expenditures	<u>19,500</u>	<u>142,017</u>	<u>(122,517)</u>
On-behalf Payments	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Expenditures	<u>19,500</u>	<u>142,017</u>	<u>(122,517)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 38,500</u>	<u>(63,739)</u>	<u>\$ (102,239)</u>
Fund Balance, July 1, 2010 (Restated - See Note 1G)		<u>(1,587)</u>	
Fund Balance, June 30, 2011		<u>\$ (65,326)</u>	

**FEDERAL COMPLIANCE SECTION**

**INTERMEDIATE SERVICE CENTER NO. 2**

**Schedule of Expenditures of Federal Awards**

Year Ended June 30, 2011

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures	
			7/01/09 - 06/30/10 (C)	7/01/10 - 06/30/11 (D)
U.S. Dept. of Education				
High School Graduation Initiative (M)	84.360	S360A100058	\$ -0-	\$ 577,691
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title I - Part A Cluster				
ARRA Title I Grants to Local Educational Agencies, Recovery Act (M)	84.389	11-4854-00	-0-	400,000
Title I - School Improvement & Accountability (M)	84.010A	10-4331-SS	983,715	-0-
Title I - School Improvement & Accountability (M)	84.010A	11-4331-SS	-0-	939,316
Total Title I - Part A Cluster			983,715	1,339,316
State Fiscal Stabilization Fund - Cluster				
ARRA-General State Aid-Education SFSF	84.394	10-4850-93	95,026	-0-
ARRA-General State Aid-Government SFSF	84.397	10-4870-93	30,781	-0-
Total State Fiscal Stabilization Fund - Cluster			125,807	-0-
Title II - Teacher Quality - Leadership Grant	84.367A	10-4935-SS	147,493	-0-
Title I - Reading First Part B SEA Funds	84.357A	10-4337-00	25,060	190,826
ARRA Education Jobs Fund	84.410	11-4880-93	-0-	64,591
U.S. Dept. of Education passed through Will County Regional Office of Education No. 56:				
McKinney Education for Homeless Children	84.196A	11-4920-00	-0-	83,483
U.S. Dept. of Agriculture passed through Illinois State Board of Education (ISBE):				
Child Nutrition Cluster				
School Breakfast Program	10.553	11-4220-00	-0-	4,360
National School Lunch Program	10.555	10-4210-00	5,854	-0-
National School Lunch Program	10.555	11-4210-00	-0-	6,758
Total Child Nutrition Cluster			5,854	11,118
Corporation for National and Community Services passed through Illinois State Board of Education (ISBE):				
Learn and Serve America	94.004	10-4910-00	8,308	4,192
Learn and Serve America	94.004	11-4910-00	-0-	8,527
			8,308	12,719
Total Expenditures of Federal Awards			\$ 1,296,237	\$ 2,279,744

(M) - Program was audited as a major program.

The accompanying notes are an integral part of this schedule.

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to the Schedule of Expenditures of Federal Awards**  
Year Ended June 30, 2011

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1. SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Intermediate Service Center No. 2 and is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

B. Relationship to Basic Financial Statements:

Federal awards received are reflected in the financial statements within the Education Fund as revenues from federal sources.

2. SUBRECIPIENTS :

Of the federal expenditures presented in the schedule, Intermediate Service Center No. 2 provided federal awards to subrecipients as follows:

PROGRAM TITLE	FEDERAL CFDA #	AMOUNT PROVIDED TO SUBRECIPIENTS
-NONE	-N/A-	-N/A-

3. DESCRIPTION OF MAJOR PROGRAMS:

The following federal programs were audited as major programs in accordance with the requirements outlined in OMB Circular A-133, *Audits of State, Local Government, and Non-Profit Organizations*.

Title I – School Improvement & Accountability:

This program is part of the Center’s System of Support Coordination and Services Plan. The program is part of a strategy to nurture and assist low-performing schools in West Cook County. Services initially are targeted in 33 elementary and high schools now on the Academic Early Warning List (AEWL) or Academic Watch List (AWL), with provision to support additional schools when they are identified. Moreover, schools in jeopardy of being identified as low-performing will be encouraged to access school improvement resources on a fee for services basis.

The goals of the program are to:

- Establish a regional support system to provide improvement support to schools and districts on the AEWL and AWL;
- Assist other schools and districts whose performance make placement on the list in the near future likely;
- Build capacity within each targeted school and district for continuous school improvement;
- Serve all schools and districts identified for support in the region and assist and collaborate with other regional centers to provide full coverage of targeted districts through efficient and cost-effective programs

**INTERMEDIATE SERVICE CENTER NO. 2**  
**Notes to the Schedule of Expenditures of Federal Awards (Continued)**  
Year Ended June 30, 2011

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ARRA Title I Grants to Local Educational Agencies, Recovery Act

The objective of this program is to help local educational agencies (LEAs) and schools improve the teaching and learning of children failing, or most at-risk of failing, to meet challenging State academic achievement standards.

High School Graduation Initiative

Awards discretionary grants to State educational agencies (SEAs) and local educational agencies (LEAs) to support the implementation of effective, sustainable, and coordinated dropout prevention and re-entry programs in high schools with annual dropout rates that exceed their state average annual dropout rate. Funds also may be used to support activities at middle schools that feed into high schools that have dropout rates that exceed the State average annual rate.

4. NONCASH ASSISTANCE:

-NONE-

5. LOAN AND LOAN GUARANTEES OUTSTANDING:

-NONE-

6. INSURANCE:

-NONE-