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, 2013

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	(July 1, 2014 to Current)	Dr. Mark Klaisner
Executive Director	(July 1, 2012 through June 30, 2014)	Ms. Kay Poyner Brown
Administrative Assistant	(July 1, 2012 through June 30, 2014)	Ms. Mary Ann Coull
Business & Financial Analyst	(Current and during audit period)	Ms. Linda Rogers

Offices are located at:

4413 Roosevelt Road
Suite 104
Hillside, IL 60162

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

Number of	This Audit	Prior Audit
Audit findings	-2-	-4-
Repeated audit findings	-2-	-2-
Prior recommendations implemented or not repeated	-2-	-1-

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

Item No.	Page	Description	Finding Type
		FINDINGS (GOVERNMENT AUDITING STANDARDS)	
2013-001	11	Inadequate Internal Control Procedures	Material Weakness
2013-002	13	Use of Designated Grant Balances	Material Weakness
		FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)	
2013-001	11	Inadequate Internal Control Procedures	Material Weakness
		PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)	
12-2	17	Expenditure and Revenue Reports Do Not Agree to General Ledger	Material Weakness
12-4	17	Controls Over Financial Statement Preparation	Material Weakness
		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 January 16, 2015. Attending were Dr. Mark Klaisner, Executive Director, Gary Lasker, Partner from Bass, Solomon, and Dowell LLP, and Jason Rothenburger, Partner 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 unmodified opinion on the Agency's basic financial statements.

BassSolomonDowell, LLP
certified public accountants
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847.934.0300 • 847.934.1990 (fax)
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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on the Financial Statements
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, 2013, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 18 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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 and Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Intermediate Service Center No. 2's internal control over financial reporting and compliance.

Bass, Solomon & Dowell, LLP

Palatine, Illinois
January 16, 2015

BassSolomonDowell, LLP
certified public accountants

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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, in accordance with the 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, the 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, 2013, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements, and have issued our report thereon dated January 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Intermediate Service Center No. 2's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Intermediate Service Center No. 2's internal control. Accordingly, we do not express an opinion on the effectiveness of Intermediate Service Center No. 2's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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 the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Intermediate Service Center No. 2's Responses to Findings

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. Intermediate Service Center No. 2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Intermediate Service Center No. 2's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Intermediate Service Center No. 2's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Palatine, Illinois
January 16, 2015

BassSolomonDowell, LLP
certified public accountants

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on Compliance for Each Major Federal Program

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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Intermediate Service Center No. 2's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Intermediate Service Center No. 2's compliance.

Opinion on Each Major Federal Program

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the types of 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, 2013.

Report on Internal Control Over Compliance

Management of Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Intermediate Service Center No. 2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 the Intermediate Service Center No. 2's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2013-001 to be a material weakness.

Intermediate Service Center No. 2's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Intermediate Service Center No. 2's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Bass, Solomon & [illegible] LLP

Palatine, Illinois
January 16, 2015

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified			
Internal control over financial reporting:				
• Material weakness(es) identified?	X	yes		no
• Significant deficiency(ies) identified		yes	X	none reported
• Noncompliance material to financial statements noted?		yes	X	no

Federal Award:

Internal Control over major programs:				
• Material weakness(es) identified?	X	yes		no
• Significant deficiency(ies) identified		yes	X	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified			
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	High School Graduation Initiative
	Title I Grants to Local Educational Agencies Cluster:
84.010A	Title I - School Improvement & Accountability

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000			
Auditee qualified as low-risk auditee?		yes	X	no

Section II – Financial Statement Findings

Finding No. 2013-001 – Inadequate Internal Control Procedures (Repeat from Finding 12-1)

Federal Program Name: Title I – School Improvement and Accountability
Project No.: 2013-4331-SS
CFDA No.: 84.010A
Passed Through: Illinois State Board of Education
Federal Agency: U.S. Department of Education

Federal Program Name: High School Graduation Initiative
Project No.: 13-S360A100058
CFDA No.: 84.360
Federal Agency: U.S. Department of Education

Criteria/Specific Requirement:

Intermediate Service Center No. 2 (Service Center) is required to maintain a system of controls over receipts, disbursements, and reporting to prevent errors and fraud.

Condition:

Intermediate Service Center No. 2 has not established sufficient controls over its accounting functions. For example, auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring the Grant Manager's approval of purchases. In 12 of 100 (12%) instances, purchase orders were approved by the Executive Director but not by the Grant Manager**.**
- The Service Center did not cancel invoices once paid. In 85 of 100 (85%) instances, invoices were not canceled once paid.

Questioned Costs:

Not determinable.

Context:

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2013 were $901,969 for Title I – School Improvement and Accountability and $1,336,442 for High School Graduation Initiative.

Effect:

Management or employees in the normal course of performing their assigned functions may not prevent or detect errors, omissions, and/or fraud in a timely manner.

Section II – Financial Statement Findings (Continued)

Finding No. 2013-001 – Inadequate Internal Control Procedures (Repeat from Finding 12-1)

Cause:

The Service Center did not adhere to established internal control procedures in place to ensure that expenditures were properly authorized, approved and canceled once paid.

Recommendation:

The Service Center should comply with its established system of internal controls to ensure expenditures are properly approved before payments are made and posted to the general ledger. The Grant Manager and Executive Director should both approve all purchase orders. When the invoice is ready for payment, there should be an approval signature by the Executive Director indicating the supporting documentation was reviewed and the invoice is properly authorized and ready for payment. In order to maintain better controls over cash disbursements, invoices should be canceled by stamping “paid” on the face of the original invoices.

Management's Response:

Intermediate Service Center No. 2’s Title I grant funded by ISBE for FY2013 had a program end date of June 30, 2013. Although funds were obligated prior to the end of the grant period, only the signature of the executive director was recorded on payment approvals for invoices received after June 30, 2013. As stipulated in the grant agreement with ISBE, the program did not allow for the grant manager to be employed past June 30, 2013. For those expenditures throughout the course of the year, the expenditures were approved by the Grant Manager; however, the Grant Manager failed to follow proper procedure and sign off that they were approved. Under the current administration, systems have been reviewed and protocols have been implemented and reinforced. We do not foresee these oversights continuing in the future.

The Service Center has increased the personnel in the business office from one to two full-time equivalent staff members as of September 1, 2014. Additional staff will allow the Service Center to adequately implement the required procedures and assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. The required procedures will also include for each original invoice to be stamped “PAID” once payment has been made. Once an invoice is paid, the check number and date are recorded on the purchase order, and is attached to the cancelled invoice.

Section II – Financial Statement Findings (Continued)

Finding No. 2013-002 - Use of Designated Grant Balances (Repeat from Finding 12-3 and 11-2)

Criteria/Specific Requirement:

Intermediate Service Center No. 2 (Service Center) 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 Service Center officials, because the Intermediate Service Center is primarily funded on a reimbursement basis, money must be spent before it is received from the State. This caused programs which the Intermediate Service Center was already in the midst of operating, to have severe cash deficits. The Service Center officials stated that to continue operating as the grant agreement stipulates, cash had to be used from other sources in order to temporarily 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:

Intermediate Service Center No. 2 is primarily funded on a reimbursement basis for most of its programs. This along with the delay in funding from the State of Illinois has caused the Center to experience cash flow issues. The source of funds used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

As in FY 2012, programs with a start date of July 1 required expenditures to be incurred without available state funds. Intermediate Service Center No. 2 was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. On a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the First Quarter of 2013 the Service Center received only 8% of its FY 2013 budgeted state dollars, at the end of the Second Quarter only 12% was received, the end of the Third Quarter 36% was received, at the end of the FY 2013 Intermediate Service Center No. 2 received 35% of the total budgeted state dollars. The remaining 9% of the FY 2013 funds were received during the First Quarter of FY 2014.

Section III – Federal Award Findings

Material Weakness

Finding No. 2013-001 – Inadequate Internal Control Procedures
(Finding details on pages 11 and 12)

Corrective Action Plan

Finding No. 2013-001 – Inadequate Internal Control Procedures

Federal Program Name: Title I – School Improvement and Accountability
Project No.: 2013-4331-SS
CFDA No.: 84.010A
Passed Through: Illinois State Board of Education
Federal Agency: U.S. Department of Education

Federal Program Name: High School Graduation Initiative
Project No.: 13-S360A100058
CFDA No.: 84.360
Federal Agency: U.S. Department of Education

Condition:

Intermediate Service Center No. 2 has not established sufficient controls over its accounting functions. For example, auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring the Grant Manager's approval of purchases. In 12 of 100 (12%) instances, purchase orders were approved by the Executive Director but not by the Grant Manager**.**
- The Service Center did not cancel invoices once paid. In 85 of 100 (85%) instances, invoices were not canceled once paid.

Corrective Action Plan:

Intermediate Service Center No. 2's Title I grant funded by ISBE for FY2013 had a program end date of June 30, 2013. Although funds were obligated prior to the end of the grant period, only the signature of the executive director was recorded on payment approvals for invoices received after June 30, 2013. As stipulated in the grant agreement with ISBE, the program did not allow for the grant manager to be employed past June 30, 2013. For those expenditures throughout the course of the year, the expenditures were approved by the Grant Manager; however, the Grant Manager failed to follow proper procedure and sign off that they were approved. Under the current administration, systems have been reviewed and protocols have been implemented and reinforced. We do not foresee these oversights continuing in the future.

The Service Center has increased the personnel in the business office from one to two full-time equivalent staff members as of September 1, 2014. Additional staff will allow the Service Center to adequately implement the required procedures and assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. The required procedures will also include for each original invoice to be stamped "PAID" once payment has been made. Once an invoice is paid, the check number and date are recorded on the purchase order, and is attached to the cancelled invoice.

Anticipated Date of Completion:

Immediately upon learning of oversight.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

Corrective Action Plan (Continued)

Finding No. 2013-002 - 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:

Intermediate Service Center No. 2 is primarily funded on a reimbursement basis for most of its programs. This along with the delay in funding from the State of Illinois has caused the Center to experience cash flow issues. The source of funds used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

As in FY 2012, programs with a start date of July 1 required expenditures to be incurred without available state funds. Intermediate Service Center No. 2 was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. On a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the First Quarter of 2013 the Service Center received only 8% of its FY 2013 budgeted state dollars, at the end of the Second Quarter only 12% was received, the end of the Third Quarter 36% was received, at the end of the FY 2013 Intermediate Service Center No. 2 received 35% of the total budgeted state dollars. The remaining 9% of the FY 2013 funds were received during the First Quarter of FY 2014.

Anticipated Date of Completion:

Immediately upon learning of oversight.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

INTERMEDIATE SERVICE CENTER NO. 2
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2013

Finding Number	Condition	Current Status
12-1	Inadequate Internal Control Procedures	Repeated
12-2	Expenditure and Revenue Reports Do Not Agree to General Ledger	Corrected
12-3	Use of Designated Grant Balances	Repeated
12-4	Controls Over Financial Statement Preparation	Corrected

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

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, 2013.

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 (2013) and the prior year (2012) 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, 2013 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.

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 Position presents information on all of Intermediate Service Center No. 2's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position 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.

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 position is summarized in the table below.

	June 30, 2013	June 30, 2012
Assets:		
Current Assets	$ 362,324	$ 681,283
Non-current Assets:		
Capital Assets	108,774	181,808
Total Assets	471,098	863,091
Deferred Outflows of Resources	-0-	-0-
Liabilities:		
Current Liabilities	658,594	323,845
Total Liabilities	658,594	323,845
Deferred Inflows of Resources	-0-	-0-
Net Position:		
Net investment in capital assets	108,774	123,815
Unrestricted	(296,270)	(23,860)
Restricted for educational purposes	-0-	439,291
Total Net Position	$ (187,496)	$ 539,246

Current assets consist of cash and investments and due from other governments.

Current liabilities consist of accounts payable, cash overdraft, accrued payroll liabilities, accrued compensated absences, and unearned revenue.

Intermediate Service Center No. 2's net position consists of unrestricted and restricted net position and amounts invested in net investment in capital assets. Unrestricted net position represents net position that has 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 position are summarized in the table below.

Condensed Statement of Activities
For Fiscal Year Ending:

	June 30, 2013	June 30, 2012
Revenues received:		
Program:		
Operating grants and contributions	$4,640,115	$5,547,451
General:		
Local sources	951,264	1,178,040
On-behalf payments	243,534	206,185
Interest	41	1,046
Total revenue received	5,834,954	6,932,722
Expenditures disbursed:		
Instructional services:		
Instruction	102,021	196,493
Supporting Services	5,482,756	5,906,810
Community Services	1,260	-0-
Nonprogrammed Charges	732,125	385,163
Administrative services:		
On-behalf payments	243,534	206,185
Total expenditures disbursed	6,561,696	6,694,651
Change in net position	(726,742)	238,071
Beginning net position	539,246	301,175
Ending net position	$ (187,496)	$ 539,246

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

<u>Management's Analysis of the Intermediate Service Center's Overall Financial Position and Results of Operations</u>

As shown in the table above, the cost of governmental activities for this year was $6,561,696. Federal and State grants financed approximately seven-tenths of this or $4,640,115. Local sources, consisting of primarily tuition, were the next largest contributor with $951,264.

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

General Fund revenues decreased by $430,414 from $2,309,713 in FY 2012 to $1,879,299 in FY 2013. This was mainly due to a decrease in Local monies and the Regional Safe School activity now being reported in the Education Fund. General Fund's expenditures increased by $83,074 from $2,212,866 in FY 2012 to $2,295,940 in FY 2013. Expenditures were higher in FY 2013 compared to FY 2012 due to an increase in support services expenditures and nonprogrammed charges. Education Fund revenues decreased by $461,061 from $4,014,388 in FY 2012 to $3,553,327 in FY 2013. Overall, revenue was lower due to a decrease in federal grants. Expenditures decreased by $247,083 from $3,960,970 in FY 2012 to $3,713,887 in FY 2013. Salaries, employee benefits, purchased services, supplies and materials for support services decreased compared to fiscal year ended June 30, 2012.

Nonmajor Special Revenue Fund revenues increased by $97,972 from $158,074 in FY 2012 to $256,046 in FY 2013. Increase in revenues was related to increased fees collected for registration and renewal of teacher certificates. Expenditures decreased by $10,370 from $245,240 in FY 2012 to $234,870 in FY 2013. The slight expenditures decrease is in line with the Center gaining experience and efficiency in the processing and collection of fees related to the registration and renewal of teacher certificates.

Capital assets

The total amount invested in capital assets net of depreciation at June 30, 2013 by the Center was $108,774. Detailed information for the Capital Assets can be found on pages 35-36 in Note 1h.

Net position

During the year net position decreased $726,742, due to the fact that expenditures were greater than revenue for the year. Total revenue for fiscal year ended June 30, 2012 was $6,932,722 and decreased by $1,097,768 to $5,834,954 for fiscal year ended June 30, 2013, primarily due to decreased federal grant and local revenue for fiscal year ended June 30, 2013. Expenses decreased by $132,955 from $6,694,651 in fiscal year ended June 30, 2012, to $6,561,696 in fiscal year ended June 30, 2013.

Factors or Conditions Impacting Future Periods

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

- The interest rate on investments remains low and will impact income.
- Several grants have decreased from previous levels or been eliminated.

On the expenditure side, increased costs 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 needs additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 4413 Roosevelt Road, Suite 104, Hillside, IL 60162.

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Net Position

June 30, 2013

		Governmental Activities
ASSETS		
Current Assets:		
Cash and investments	$	74,462
Due from other governments		287,862
Total current assets		362,324
Noncurrent assets:		
Capital Assets, being depreciated, net		108,774
Total assets		471,098
Deferred outflows of resources		-0-
LIABILITIES		
Current Liabilities:		
Cash overdraft		114,720
Accounts payable		502,877
Unearned revenue		558
Accrued compensated absences		14,064
Accrued payroll liabilities		26,375
Total current liabilities		658,594
Total liabilities		658,594
Deferred inflows of resources		-0-
NET POSITION		
Net investment in capital assets		108,774
Unrestricted		(296,270)
Restricted for educational purposes		-0-
Total net position	$	(187,496)

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, 2013

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities
FUNCTIONS/PROGRAMS			
Primary government:			
Governmental activities:			
Instructional services:			
Instruction	$ 102,021	$ 36,713	$ (65,308)
Supporting services	5,482,756	4,521,057	(961,699)
Community services	1,260	-0-	(1,260)
Nonprogrammed charges	732,125	82,345	(649,780)
Administrative:			
On-behalf payments	243,534	-0-	(243,534)
Total governmental activities	$ 6,561,696	$ 4,640,115	(1,921,581)
General revenues:			
Local sources			951,264
On-behalf payments			243,534
Interest			41
Total general revenues			1,194,839
Change in net position			(726,742)
Net position - beginning			539,246
Net position - ending			$ (187,496)

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

INTERMEDIATE SERVICE CENTER NO. 2

Balance Sheet

Governmental Funds

June 30, 2013

ASSETS	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
Cash - Imprest fund	$ 3,025	$ -0-	$ -0-	$ 3,025
Equity in pooled cash and investments	-0-	71,437	-0-	71,437
Due from other governments	40,000	247,862	-0-	287,862
Total assets	43,025	319,299	-0-	362,324
Deferred outflows of resources	-0-	-0-	-0-	-0-
Total assets and deferred outflows of resources	$ 43,025	$ 319,299	$ -0-	$ 362,324
LIABILITIES				
Cash overdraft	$ 32,273	$ -0-	$ 82,447	$ 114,720
Accounts payable	250,010	203,998	48,869	502,877
Accrued payroll liabilities	26,375	-0-	-0-	26,375
Unearned revenue	-0-	188,518	-0-	188,518
Total liabilities	308,658	392,516	131,316	832,490
Deferred inflows of resources	-0-	-0-	-0-	-0-
FUND BALANCE				
Restricted	-0-	-0-	-0-	-0-
Assigned	-0-	-0-	-0-	-0-
Unassigned	(265,633)	(73,217)	(131,316)	(470,166)
Total fund balance	(265,633)	(73,217)	(131,316)	(470,166)
Total liabilities, deferred inflows of resources, and fund balance	$ 43,025	$ 319,299	$ -0-	$ 362,324

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 Position
Governmental Funds
June 30, 2013

Total fund balance - governmental funds	$	(470,166)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		108,774
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		187,960
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.		(14,064)
Long-term liabilities incurred from governmental activities are not financial outsources and therefore, are not reported in the funds.		-0-
Net position of governmental activities	$	(187,496)

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, 2013

	General Fund	Education Fund	Nonmajor Special Revenue Funds	Total Governmental Funds
REVENUES				
Local Sources	$ 338,313	$ 356,905	$ 256,046	$ 951,264
State Sources	1,540,986	697,508	-0-	2,238,494
Federal Sources	-0-	2,498,914	-0-	2,498,914
Total Direct Revenues	1,879,299	3,553,327	256,046	5,688,672
On-behalf Payments	243,534	-0-	-0-	243,534
Total Revenues	2,122,833	3,553,327	256,046	5,932,206
EXPENDITURES				
Instruction	54,668	46,918	-0-	101,586
Support Services	1,936,481	3,238,375	234,870	5,409,726
Community Services	-0-	1,260	-0-	1,260
Nonprogrammed Charges	304,791	427,334	-0-	732,125
Total Direct Expenditures	2,295,940	3,713,887	234,870	6,244,697
On-behalf Payments	243,534	-0-	-0-	243,534
Total Expenditures	2,539,474	3,713,887	234,870	6,488,231
OTHER FINANCING SOURCES/(USES)				
Loan Payments-principal	(57,988)	-0-	-0-	(57,988)
Interest	41	-0-	-0-	41
Total other financing sources/(uses)	(57,947)	-	-0-	(57,947)
Net Change in Fund Balance	(474,588)	(160,560)	21,176	(613,972)
Fund Balance, July 1, 2012	208,955	87,343	(152,492)	143,806
Fund Balance, June 30, 2013	$ (265,633)	$ (73,217)	$ (131,316)	$ (470,166)

The notes to the financial statements 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, 2013

Net change in fund balances		$	(613,972)
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	$ 2,543		
Depreciation expense	(75,577)		
Net adjustment			(73,034)
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 position.			
Issuance of long-term debt	-0-		
Principal payments	57,993		
			57,993
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			(285,254)
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			(435)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds			187,960
Change in net position of governmental activities		$	(726,742)

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

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. The administrative agent designated for this center during the audit period was the 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.

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 Position 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 Position presents information on all Intermediate Service Center No. 2's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Intermediate Service Center No. 2 is improving or deteriorating. The net position of the Intermediate Service Center is classified as follows:

Net Investment in Capital Assets – represents the Center's total investment in capital assets. There is no outstanding debt related to these assets.

Unrestricted Net Position – 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Restricted Net Position – Consists of net position with constraints placed on its 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 position that is 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 position that is subject to external enforceable legal restrictions. The following account fund balances are restricted by grant agreements or contracts: Response to Intervention, West Cook Math Initiative, State Free Lunch and Breakfast, Regional Safe Schools, ISC Operations, Technology for Success, Learn and Serve America, Title II-Teacher Quality-Leadership Grant, School Breakfast Program, National School Lunch Program, Title I - School Improvement and Accountability, McKinney Education for Homeless Children, High School Graduation Initiative, 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 position 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 position 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.

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 New Principal Mentoring, 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:

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

New Principal Mentoring: Provides new principals with the individualized mentoring support they need to successfully transition into effective educational leaders.

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.

Alternative Learning Opportunities - Achievers: Offers a broader range of academic, behavioral, and social/emotional interventions designed to increase the academic achievement levels of these students so that they are able meet the Illinois Learning Standards and complete their education in a safe learning environment.

Alternative Learning Opportunities – Senior Plus: Offers a broader range of academic, behavioral, and social/emotional interventions designed to increase the academic achievement levels of these students so that they are able meet the Illinois Learning Standards and complete their education in a safe learning environment.

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:

Response to Intervention: Contributes to the improvement of instruction for students with disabilities and to the prevention of inappropriate identification of specific learning disabilities.

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

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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.

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.

Technology for Success: Accounts for monies received for and in payment of expenditures incurred to create and support ongoing learning team focused on alignment of classroom-level assessment and instruction.

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

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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.

As a general rule, the effect of interfund activities has been eliminated in the government-wide financial statements.

E. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenditures. Actual results could differ from those estimates.

F. 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, 2013 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Budgets and Budgetary Accounting (Continued):
Federal grants administered that have budgets are as follows: Learn and Serve America, Title II-Teacher Quality-Leadership Grant, School Breakfast Program, National School Lunch Program, Title I – School Improvement and Accountability, McKinney Education for Homeless Children, and High School Graduation Initiative.

State grants administered that have budgets are as follows: General State Aid, Regional Safe Schools Program, Alternative Learning Opportunities – Achievers, Alternative Learning Opportunities – Senior Plus, Intermediate Service Center Operations, and Technology for Success. Local sources administered that have budgets are as follows: Services provided to other LEA's, Response to Intervention, New Principal Mentoring, West Cook Math Initiative, and Institute.

G. 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 $41 in interest was credited to Intermediate Service Center No. 2.

	Carrying Amount	Bank Balance
Cash deposits in custody of Center	$ 3,025	$ 3,025
Equity in pooled cash and investments of Lyons Township School Treasurer	$ (43,283)	$ (43,283)

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

G. 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, 2013, the Treasurer's investments exposed to credit risk varied between an "AA+" and "A-2" rating by Standard & Poor's and between a "Aaa" and "Baa2" rating by Moody's.

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 are being depreciated using the straight-line method over the following useful life:

Equipment & Leasehold Improvements	7 years

Capital assets in the governmental fund financial statements are reported as expenditures when incurred.

H. Capital Assets (Continued):

The governmental activities capital asset activity for the year ended June 30, 2013 is as follows:

	Balance July 1, 2012	Additions	Retirements	Balance June 30, 2013
Cost:				
Equipment & Leasehold Improvements	$1,234,323	$ 2,543	$ -0-	$ 1,236,866
Accumulated Depreciation:				
Equipment	$1,052,515	$ 75,577	$ -0-	$ 1,128,092
Total Capital Assets, Net:				
Equipment	$ 181,808	$ (73,034)	$ -0-	$ 108,774

Depreciation expense was charged to governmental functions as follows:

Supporting Services	$ 75,577

I. Compensated Absences:

Intermediate Service Center No. 2's employees hired before July 1, 2012 receive 20 days of vacation per year earned on a quarterly basis. Employees hired July 1, 2012 or after, earn vacation days on a quarterly basis based on the following schedule: 10 days for 0-2 years of continuous employment; 15 days for 3-5 years of continuous employment; 20 days for 6 or more years of continuous employment. Part-time employees who work a minimum of .6 FTE earn vacation on a prorated basis according to the full time employee vesting schedule listed above. 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, 2013, the Executive Director granted a total of 43 days or $14,064 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.

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, 2013, 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, 2012 and 2011.

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

- *On behalf contributions.* The State of Illinois makes employer pension contributions on behalf of the Center. For the year ended June 30, 2013, State of Illinois contributions were based on 28.05 percent of creditable earnings not paid from federal funds, and the Center recognized revenue and expenditures of $235,800 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2012 and June 30, 2011, the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 24.91 percent ($199,150) and 23.10 percent ($149,481), 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, 2013 were $6,496. Contributions for the years ending June 30, 2012 and June 30, 2011, were $7,660 and $5,291, 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, 2013, the employer pension contribution was 28.05 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2012 and 2011, the employer contribution was 24.91 and 23.10 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2013, salaries totaling $279,352 were paid from federal and special trust funds that required employer contributions of $78,358. For the years ended June 30, 2012 and June 30, 2011, required Center contributions were $129,836 and $61,235, respectively.

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, 2013, the Center paid $-0- to TRS for employer contributions under the ERO program. For the years ended June 30, 2012 and June 30, 2011, 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, 2013, the Center paid $-0- to TRS for employer contributions due on salary increases in excess of 6 percent. For the years ended June 30, 2012 and June 30, 2011, 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 rate reported by the granting employer during the four-year sick leave review period, and the TRS total normal cost rate (17.63 percent of salary during the year ended June 30, 2013).

  For the year ended June 30, 2013, the Center paid $-0- to TRS for sick leave days granted in excess of the normal annual allotment. For the year ended June 30, 2012 and June 30, 2011, 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, 2013. 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.

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 $323,334.

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 $124,310, 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 retired Illinois public school teachers employed outside the city of Chicago. The THIS Fund provides medical, prescription, and behavioral health benefits, but it 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. Effective July 1, 2012, in accordance with Executive Order 12-01, the plan is administered by the Illinois Department of Central Management Services (CMS) with the cooperation of TRS. 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 Fund.

3. RETIREMENT FUND COMMITMENTS (Continued):

D. Teacher Health Insurance Security Fund (Continued):

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

On-behalf Contributions to THIS Fund

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 0.92 percent of pay during the year ended June 30, 2013. State of Illinois contributions were $7,734, 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 years ended June 30, 2012 and June 30, 2011 were 0.88 percent of pay. State contributions on behalf of Intermediate Service Center No. 2's employees were $7,035 and $5,695, respectively.

Employer Contributions to THIS Fund

Intermediate Service Center No. 2 also makes contributions to THIS Fund. The Center THIS Fund contribution was 0.69 percent during the year ended June 30, 2013 and 0.66 percent during the years ended June 30, 2012 and June 30, 2011. For the year ended June 30, 2013, Intermediate Service Center No. 2 paid $7,728 to the THIS Fund. For the years ended June 30, 2012 and June 30, 2011, the Center paid $8,717 and $4,271 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 found on the website of the Illinois Auditor General: http://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp. The 2013 report is listed under "Central Management Services." Prior reports are available under "Healthcare and Family Services."

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	$ 235,800
Teachers' Health Insurance Security	7,734
	$ 243,534

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

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 & Accountability	$ 158,999
Regional Safe Schools Programs	40,000
Title II – Teacher Quality – Leadership Grant	63,720
Technology for Success	12,728
ROE/ISC Operations	6,054
McKinney Education for Homeless Children	6,361
	$ 287,862

Included in accounts payable is $46,721 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. UNEARNED REVENUE:

Unearned revenue is recognized in programs where program monies have been received but not yet spent. The following programs recognized unearned revenue at June 30, 2013:

High School Graduation Initiative	$ 558

7. NON-CANCELABLE OPERATING LEASES:

Lease Commitment – Melrose Park:

On July 19, 2013 the Center entered into a commercial building lease agreement for the Harbor Academy School. The twelve month lease beginning on August 1, 2013 provides for the lease by the Center of space in Melrose Park, Illinois. Base annual rent is $12,500 per month. Included in the base rent is a per-month charge of $6,500 to cover build-out costs incurred by the lessor.

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, 2013 are as follows:

Year Ended June 30	
2014	$ 5,293

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 expired 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 represented the first month's rent. The lease had a renewal option for five years and was not renewed.

7. NON-CANCELABLE OPERATING LEASES (Continued):

Lease Commitment – Hillside – Main Offices:

On February 26, 2013 the Center leased a commercial building for its main offices. The sixty month lease beginning on June 1, 2013 provides for the lease by the Center of approximately 7,500 square feet of space in Hillside, Illinois. Base annual rent is initially set at $7,500 per month with a 3% annual increase beginning on July 1, 2014. The Center is responsible for common area maintenance and its pro-rata share of real estate taxes. The Center has an option to extend the term of the lease for an additional five year period with respect to the entire premises.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2013 are as follows:

Year Ended June 30	
2014	$ 90,000
2015	92,700
2016	95,481
2017	98,345
2018	92,854
	$469,380

Lease Commitment – Hillside – Harbor Academy:

On June 28, 2013 the Center leased a commercial building for the Harbor Academy School. The thirty-six month lease beginning on June 28, 2013 provides for the lease by the Center of space in Hillside, Illinois. Base annual rent is initially set at $8,550 per month with a 3.5% annual increase beginning on July 1, 2014. The Center has one option to extend the term of the lease up to an additional three year period with respect to the entire premises.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2013 are as follows:

Year Ended June 30	
2014	$102,604
2015	106,195
2016	109,912
	$318,711

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. This loan was paid off during the fiscal year ended June 30, 2013.

Interest expense of $1,740 from this loan is included in purchased services.

9. NEW ACCOUNTING PRONOUNCEMENTS:

Effective for the year ending June 30, 2013, the Center adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. 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, 2013, the Center adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and No. 34.* This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. 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, 2013, the Center adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. There was no significant impact on the Center's financial statements as a result of adopting this statement.

10. OTHER REQUIRED FUND DISCLOSURES:

Deficit fund balances at June 30, 2013 are as follows:

Nonmajor Special Revenue Fund	$131,316
Education Fund	$ 73,217
General Fund	$265,633

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 these deficits will continue into the future.

11. SUBSEQUENT EVENTS:

As of July 1, 2014 the Center's employees are no longer considered employees of LaGrange Highlands School District #106 with respect to the Illinois Municipal Retirement Fund. The Center will be responsible for any and all IMRF funding requirements as of July 1, 2014.

Management has evaluated subsequent events through January 16, 2015, 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, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local Sources			
Services Provided Other LEA's	$ 843,750	$ 302,913	$ (540,837)
New Principal Mentoring	-0-	35,400	35,400
Total Local Sources	843,750	338,313	(505,437)
State Sources			
General State Aid	567,893	1,136,728	568,835
Alternative Learning Opportunites - Achievers	105,107	105,107	-0-
Alternative Learning Opportunites - Senior Plus	299,151	299,151	-0-
Total State Sources	972,151	1,540,986	568,835
Total Direct Revenues	1,815,901	1,879,299	63,398
On-behalf Payments	-0-	243,534	243,534
Total Revenues	1,815,901	2,122,833	306,932

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
General Fund (Continued)
Year Ended June 30, 2013

EXPENDITURES	**Budget**	**Actual**	**Variance Favorable (Unfavorable)**
Instruction			
Employee Benefits	-0-	11,956	(11,956)
Purchased Services	10,000	14,046	(4,046)
Non-Capitalized Equipment	-0-	28,666	(28,666)
Total Instruction	10,000	54,668	(44,668)
Support Services			
Pupils			
Attendance and Social Work Services			
Purchased Services	-0-	1,667	(1,667)
Total Pupils	-0-	1,667	(1,667)
Instructional Staff			
Improvement of Instruction Services			
Salaries	787,500	965,199	(177,699)
Employee Benefits	209,247	307,020	(97,773)
Purchased Services	580,599	558,906	21,693
Supplies and Materials	50,500	86,369	(35,869)
Capital Outlay	1,500	-0-	1,500
Other Objects	8,000	8,084	(84)
Non-Capitalized Equipment	-0-	-0-	-0-
Total Instructional Staff	1,637,346	1,925,578	(288,232)
General Administration			
Board of Education Services			
Salaries	-0-	(167)	167
Employee Benefits	-0-	(31)	31
Total General Administration	-0-	(198)	198

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

General Fund (Continued)

Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES			
Business			
Fiscal Services			
Salaries	8,000	8,000	-0-
Employee Benefits	1,500	1,434	66
Total Business	9,500	9,434	66
Total Support Services	1,646,846	1,936,481	(289,635)
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Non-Capitalized Equipment	250,850	304,791	(53,941)
Total Nonprogrammed Charges	250,850	304,791	(53,941)
Total Direct Expenditures	1,907,696	2,295,940	(388,244)
On-behalf Payments	-0-	243,534	(243,534)
Total Expenditures	1,907,696	2,539,474	(631,778)
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ (91,795)	(416,641)	$ (324,846)
OTHER FINANCING SOURCES/(USES)			
Loan Payments-principal		$ (57,988)	
Interest		41	
Total other financing sources (uses)		(57,947)	
Net change in fund balances		(474,588)	
Fund Balance, July 1, 2012		208,955	
Fund Balance, June 30, 2013		$ (265,633)	

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund
Year Ended June 30, 2013

REVENUES	Budget	Actual	Variance Favorable (Unfavorable)
Local Sources			
Response to Intervention	$ 32,240	$ 180,229	$ 147,989
West Cook Math Initiative	231,750	176,676	(55,074)
Total Local Sources	263,990	356,905	92,915
State Sources			
State Free Lunch and Breakfast	-0-	449	449
Regional Safe Schools Program	253,797	253,797	-0-
I.S.C. Operations	181,614	181,614	-0-
Technology for Success	197,349	261,648	64,299
Total State Sources	632,760	697,508	64,748
Federal Sources			
Learn and Serve America	12,543	7,208	(5,335)
Title II-Teacher Quality-Leadership Grant	93,645	41,120	(52,525)
School Breakfast Program	4,000	4,312	312
National School Lunch Program	4,000	6,695	2,695
Title I - School Improvement and Accountability	1,066,493	991,002	(75,491)
McKinney Education for Homeless Children	88,650	82,121	(6,529)
High School Graduation Initiative	1,114,105	1,366,456	252,351
Total Federal Sources	2,383,436	2,498,914	115,478
Total Direct Revenues	3,280,186	3,553,327	273,141
On-behalf Payments	-0-	-0-	-0-
Total Revenues	3,280,186	3,553,327	273,141

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2013

EXPENDITURES	Budget	Actual	Variance Favorable (Unfavorable)
Instruction			
Salaries	27,152	25,600	1,552
Employee Benefits	4,073	9,045	(4,972)
Purchased Services	2,900	1,950	950
Supplies and Materials	3,000	7,851	(4,851)
Non-Capitalized Equipment	-0-	2,472	(2,472)
Total Instruction	37,125	46,918	(9,793)
Support Services			
Pupils			
Attendance and Social Work Services			
Salaries	-0-	1,349	(1,349)
Purchased Services	79,680	79,865	(185)
Supplies and Materials	3,550	5,203	(1,653)
Total Pupils	83,230	86,417	(3,187)
Instructional Staff			
Improvement of Instruction Services			
Salaries	1,363,107	1,369,080	(5,973)
Employee Benefits	446,244	450,411	(4,167)
Purchased Services	721,505	624,983	96,522
Supplies and Materials	136,773	219,062	(82,289)
Capital Outlay	-0-	2,542	(2,542)
Educational Media Services			
Supplies and Materials	61,041	-0-	61,041
Total Instructional Staff	2,728,670	2,666,078	62,592
General Administration			
Board of Education Services			
Salaries	144,358	138,988	5,370
Employee Benefits	26,104	28,360	(2,256)
Purchased Services	21,862	9,243	12,619
Supplies and Materials	1,400	956	444
Office of Principal Services			
Salaries	184,038	160,325	23,713
Employee Benefits	12,930	31,431	(18,501)
Total General Administration	390,692	369,303	21,389

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2013

EXPENDITURES	Budget	Actual	Variance Favorable (Unfavorable)
Business			
Fiscal Services			
Salaries	53,209	56,747	(3,538)
Employee Benefits	12,343	5,731	6,612
Pupil Transportation			
Purchased Services	600	588	12
Total Business	66,152	63,066	3,086
Other Support Services			
Salaries	17,157	5,102	12,055
Employee Benefits	-0-	778	(778)
Purchased Services	-0-	46,087	(46,087)
Supplies and Materials	-0-	1,344	(1,344)
Other Objects	-0-	200	(200)
Total Other Support Services	17,157	53,511	(36,354)
Total Support Services	3,285,901	3,238,375	47,526
Community Services			
Purchased Services	-0-	1,260	(1,260)
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	76,650	423,421	(346,771)
Non-Capitalized Equipment	8,625	3,913	4,712
Total Nonprogrammed Charges	85,275	427,334	(342,059)
Total Direct Expenditures	3,408,301	3,713,887	(305,586)
On-behalf Payments	-0-	-0-	-0-
Total Expenditures	3,408,301	3,713,887	(305,586)
Net change in fund balances	$ (128,115)	(160,560)	$ (32,445)
Fund Balance, July 1, 2012		87,343	
Fund Balance, June 30, 2013		$ (73,217)	

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Nonmajor Special Revenue Fund
Year Ended June 30, 2013

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Local Sources			
Institute	$ 288,000	$ 256,046	$ (31,954)
Total Local Sources	288,000	256,046	(31,954)
Total Direct Revenues	288,000	256,046	(31,954)
On-behalf Payments	-0-	-0-	-0-
Total Revenues	288,000	256,046	(31,954)
EXPENDITURES			
Support Services			
Instructional Staff			
Improvement of Instruction Services			
Salaries	131,712	112,290	19,422
Employee Benefits	50,000	48,170	1,830
Purchased Services	7,500	6,772	728
Supplies and Materials	1,000	706	294
Non-Capitalized Equipment	46,000	66,659	(20,659)
Total Instructional Staff	236,212	234,597	1,615
General Administration			
Board of Education Services			
Supplies and Materials	-0-	273	(273)
Total General Administration	-0-	273	(273)
Total Support Services	236,212	234,870	1,342
Total Direct Expenditures	236,212	234,870	1,342
On-behalf Payments	-0-	-0-	-0-
Total Expenditures	236,212	234,870	1,342
Net change in fund balances	$ 51,788	21,176	$ (30,612)
Fund Balance, July 1, 2012		(152,492)	
Fund Balance, June 30, 2013		$ (131,316)	

FEDERAL COMPLIANCE SECTION

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures 7/01/11 - 06/30/12 (C)	Expenditures 7/01/12 - 06/30/13 (D)
U.S. Dept. of Education				
High School Graduation Initiative (M)	84.360	13-S360A100058	$ -0-	$ 982,559
High School Graduation Initiative (M)	84.360	12-S360A100058	1,270,916	353,883
			1,270,916	1,336,442
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title I - Part A Cluster				
Title I - School Improvement & Accountability (M)	84.010A	13-4331-SS	-0-	901,969
Title I - School Improvement & Accountability (M)	84.010A	12-4331-SS	1,348,742	-0-
Total Title I - Part A Cluster			1,348,742	901,969
Title II - Teacher Quality - Leadership Grant	84.367A	13-4935-SS	-0-	63,720
ARRA Education Technology State Grants, Recovery Act	84.386	13-4861-00	26,664	-0-
ARRA Education Jobs Fund	84.410	12-4880-93	971	-0-
			971	-0-
U.S. Dept. of Education passed through Will County Regional Office of Education No. 56:				
McKinney Education for Homeless Children	84.196A	13-4920-02	-0-	85,062
McKinney Education for Homeless Children	84.196A	12-4920-00	86,580	3,420
			86,580	88,482
U.S. Dept. of Agriculture passed through Illinois State Board of Education (ISBE):				
Child Nutrition Cluster				
School Breakfast Program	10.553	13-4220-00	-0-	3,884
School Breakfast Program	10.553	12-4220-00	4,535	428
			4,535	4,312
National School Lunch Program	10.555	13-4210-00	-0-	6,027
National School Lunch Program	10.555	12-4210-00	7,029	668
			7,029	6,695
Total Child Nutrition Cluster			11,564	11,007
Corporation for National and Community Services passed through Illinois State Board of Education (ISBE):				
Learn and Serve America	94.004	12-4910-00	12,543	-0-
			12,543	-0-
Total Expenditures of Federal Awards			$ 2,757,980	$ 2,401,620

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

The accompanying notes are an integral part of this schedule.

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 States, Local Governments, 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; and
- 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.

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-