STATE OF ILLINOIS
SOUTH COOK INTERMEDIATE
SERVICE CENTER NO. 4
FINANCIAL AUDIT
(IN ACCORDANCE WITH THE SINGLE AUDIT ACT
AND OMB CIRCULAR A-133)
FOR THE YEAR ENDED JUNE 30, 2006

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4
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OFFICIALS

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Executive Director	(Current) (During audit period)	Dr. Vanessa Kinder Dr. Diana Grossi
Executive Assistant	(Current and during audit period)	Ms. Joani Fadool
Bookkeeper	(Current and during audit period)	Ms. Shelia Ivy

Offices are located at:

253 West Joe Orr Road
Chicago Heights, IL 60411

COMPLIANCE REPORT
SUMMARY

The compliance audit testing performed during 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	1	-0-
Repeated audit findings	-0-	-0-
Prior recommendations implemented or not repeated	-N/A-	-N/A-

SUMMARY OF FINDINGS AND QUESTIONED COSTS

Item No.	Description	
	FINDINGS (GOVERNMENT AUDITING STANDARDS)	
06-1	Inaccurate reporting of expenditures of federal awards	(Finding details on pages 8 and 9)
	FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)	
06-1	Inaccurate reporting of expenditures of federal awards	(Finding details on pages 8 and 9)
	PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)	
	-N/A-	
	PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)	
	-N/A-	

EXIT CONFERENCE

An exit conference was held with agency personnel on February 8, 2008. Attending were Dr. Vanessa Kinder, Executive Director. Also attending was Jeff Johnson, CPA, Senior Manager from Lindgren, Callihan, Van Osdol & Co., LTD. A response to finding 06-1 was provided that day.

FINANCIAL STATEMENT
REPORT SUMMARY

The audit of the accompanying basic financial statements of South Cook Intermediate Service Center No. 4 was performed by Lindgren, Callihan, Van Osdol & Co., Ltd.

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

LCV

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

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 South Cook Intermediate Service Center No. 4, as of and for the year ended June 30, 2006, which collectively comprise the South Cook Intermediate Service Center No. 4's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South Cook Intermediate Service Center No. 4's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South Cook Intermediate Service Center No. 4, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 8, 2008 on our consideration of the South Cook Intermediate Service Center No. 4's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants
215 East First Street
Commerce Towers Suite 200
P.O. Box 324
Dixon, Illinois 61021
ph 815.284.3331
fax 815.284.9480
www.lcvcpa.com
Rockford, Illinois
Sterling, Illinois
Dixon, Illinois
Freeport, Illinois

The Management's Discussion and Analysis and the Illinois Municipal Retirement Fund Schedule of Funding Progress on pages 13 through 16, and page 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Cook Intermediate Service Center No. 4's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Budgetary Comparison Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lindgren, Gallihar, Van Osdol & Co., Ltd.

Dixon, Illinois
May 8, 2008

LCV

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South Cook Intermediate Service Center No. 4, as of and for the year ended June 30, 2006, which collectively comprise the South Cook Intermediate Service Center No. 4's basic financial statements and have issued our report thereon dated May 8, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Cook Intermediate Service Center No. 4's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the South Cook Intermediate Service Center No. 4's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 06-1 to be a material weakness.

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants
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fax 815.284.9480
www.lcvcpa.com
Rockford, Illinois
Sterling, Illinois
Dixon, Illinois
Freeport, Illinois

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the South Cook Intermediate Service Center No. 4's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-1.

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

Lindgren, Coletti, Van Osdol & Co., Ltd.

Dixon, Illinois
May 8, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the South Cook Intermediate Service Center No. 4 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The South Cook Intermediate Service Center No. 4's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the South Cook Intermediate Service Center No. 4's management. Our responsibility is to express an opinion on the South Cook Intermediate Service Center No. 4's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Cook Intermediate Service Center No. 4's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the South Cook Intermediate Service Center No. 4's compliance with those requirements.

As described in item 06-1 in the accompanying Schedule of Findings and Questioned Costs, the South Cook Intermediate Service Center No. 4 did not comply with requirements regarding expenditure reporting that are applicable to its Title I – School Improvement & Accountability program. Compliance with such requirements is necessary, in our opinion, for the South Cook Intermediate Service Center No. 4 to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the South Cook Intermediate Service Center No. 4 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Lindgren, Callihan, Van Osdol & Co., Ltd.
Certified Public Accountants & Consultants
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fax 815.284.9480
www.lcvcpa.com
Rockford, Illinois
Sterling, Illinois
Dixon, Illinois
Freeport, Illinois

Internal Control Over Compliance

The management of the South Cook Intermediate Service Center No. 4 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the South Cook Intermediate Service Center No. 4's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the South Cook Intermediate Service Center No. 4's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we consider the reportable condition described above as item 06-1 to be a material weakness.

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

Sindyn, Collins, Van Osdel & Co., Ltd.

Dixon, Illinois
May 8, 2008

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes ____ no
- Reportable condition(s) identified not considered to be material weaknesses? ____ yes X none reported
- Noncompliance material to financial statements noted? X yes ____ no

Federal Award:

Internal Control over major programs:

- Material weakness(es) identified? X yes ____ no
- Reportable conditions(s) identified not considered to be material weaknesses? ____ yes X none reported

Type of auditor's report issued on compliance for major programs: Qualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? X yes ____ no

Identification of major programs:

CFDA Number	*Name of Federal Program or 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? X yes ____ no

Section II – Financial Statement Findings

Finding No. 06-1 – Inaccurate reporting of expenditures of federal awards

Federal Program Name: Title I – School Improvement & Accountability

Project No.: 06-4331-SS

CFDA No.: 84.010A

Pass Through Agency: Illinois State Board of Education

Federal Agency: U.S. Department of Education

1. *Criteria/specific requirement:*

As a subrecipient of federal Title I – School Improvement & Accountability funds from the Illinois State Board of Education (ISBE), South Cook Intermediate Service Center No. 4 (the Center) is required to submit quarterly expenditure reports. These expenditure reports are required to reflect, by budget line item, the actual costs incurred as a result of administering the programs. The Center is also required to expend the federal funds for only allowable costs.

2. *Condition:*

The Center's expenditure reports filed with ISBE were based on estimated costs, rather than actual costs incurred for the Title I – School Improvement & Accountability program. These estimated costs were invoiced by the Center's Local Accounts to the Title I – School Improvement & Accountability program. The auditors concluded that these estimated costs were significantly higher than the costs actually incurred by the Center on the program. Consequently, ISBE's reimbursements to the Center, which were based on the quarterly reports, were greater than the costs incurred. The Center did not have a mechanism in place to accurately accumulate the actual costs incurred by this program. The amounts charged in excess of the actual costs remain in the Local Accounts.

3. *Questioned Cost:*

The Center reported total costs of $2,139,918 for the Title I – School Improvement & Accountability program on ISBE expenditure reports. However a qualified independent party and auditors determined that actual costs of approximately $1,300,000 were incurred. The amount of costs over charged to the program is estimated to be $840,000.

4. *Context:*

The Center received $2,139,918 in revenues for the Title I – School Improvement & Accountability Program. The Center reported to ISBE expenditures of $2,139,918. Total expenditures for all programs recorded in the Local Accounts were $1,723,655 of which $1,299,528 was determined to be for the Title I – School Improvement & Accountability Program.

Section II – Financial Statement Findings (Continued)

5. *Effect:*

The Center materially overstated the costs charged to the Title I – School Improvement & Accountability Program to ISBE. Therefore, the Center is not in compliance with the requirements of the granting agency (ISBE) and OMB Circular A-133.

As a result of the audit finding, the Center has recognized a "due to other governments" of $840,390 for this program in the current year and will need to reimburse ISBE for the funds overcharged to the Title I – School Improvement and Accountability Program.

6. *Cause:*

According to Center officials, the Center did not have a mechanism in place to accurately track and charge the actual costs incurred by the Local Accounts on behalf of the Title I- School Improvement & Accountability program.

7. *Recommendation:*

The Center should charge the actual costs of administering the Title I – School Improvement & Accountability Program directly to the program accounts. The Center should apply the new procedures to the accounting records in order to provide ISBE with an updated expenditure report for the year ended June 30, 2006 and reimburse ISBE for the overcharged funds.

8. *Management's response:*

The Center will charge actual costs of administering the Title I – School Improvement & Accountability Program directly to the program accounts going forward. As a result of this finding, the Center has recognized an amount due to other governments for all amounts received for this program in excess of the actual costs incurred in the current year. The Center is working with the Illinois State Board of Education to develop a system that will better track actual costs of the Title I – School Improvement & Accountability Program on the Center's financial statements and will tie the financial statements to the completion reports. The year ended June 30, 2008 grant has been amended and approved and reflects the appropriate changes based on the results of this audit.

Section III – Federal Award Findings

Instances of Noncompliance:

06-1 – Inaccurate reporting of expenditures of federal awards. (Finding details on page 8 and 9)

Reportable Condition:

06-1 – Inaccurate reporting of expenditures of federal awards. (Finding details on page 8 and 9)

-N/A-

Corrective Action Plan

Finding No.: 06-1

Condition:

The Center's expenditure reports filed with ISBE were based on estimated costs, rather than actual costs incurred for the Title I – School Improvement & Accountability program. These estimated costs were invoiced by the Center's Local Accounts to the Title I – School Improvement & Accountability program. The auditors concluded that these estimated costs were significantly higher than the costs actually incurred by the Center on the program. Consequently, ISBE's reimbursements to the Center, which were based on the quarterly reports, were greater than the costs incurred. The Center did not have a mechanism in place to accurately accumulate the actual costs incurred by this program. The amounts charged in excess of the actual costs remain in the Local Accounts.

Plan:

The Center will charge actual costs of administering the Title I – School Improvement & Accountability Program directly to the program accounts going forward. As a result of this finding, the Center has recognized an amount due to other governments for all amounts received for this program in excess of the actual costs incurred in the current year. The Center is working with the Illinois State Board of Education to develop a system that will better track actual costs of the Title I – School Improvement & Accountability Program on the Center's financial statements and will tie the financial statements to the completion reports. The year ended June 30, 2008 grant has been amended and approved and reflects the appropriate changes based on the results of this audit.

Anticipated Date of Completion:

March 31, 2008

Name of Contact Person: Dr. Vanessa Kinder, Executive Director

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

As management of South Cook Intermediate Service Center No. 4, we offer the readers of the financial statements this narrative overview and analysis of the financial activities of South Cook Intermediate Service Center No. 4 for the year ended June 30, 2006.

Management's Discussion and Analysis (MD&A) is a new 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 (2006) and the prior year (2005), is required to be presented in the MD&A.

MD&A is provided at the beginning of the report to provide an overview of South Cook Intermediate Service Center No. 4's financial position at June 30, 2006 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 South Cook Intermediate Service Center No. 4: 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 South Cook Intermediate Service Center No. 4's overall financial status, similar to a private sector business. In the government-wide financial statements, activities are shown in one category – governmental activities. South Cook Intermediate Service Center No. 4's basic service is education. These activities are largely financed with local, State and federal revenues.

The Statement of Net Assets presents information on all of South Cook Intermediate Service Center No. 4's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of South Cook Intermediate Service Center No. 4 is improving or deteriorating.

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

Fund Financial Statements

The fund financial statements provide more detailed information about South Cook Intermediate Service Center No. 4's funds – not South Cook Intermediate Service Center No. 4 as a whole. Funds are specific segregations of cash and accounting devices South Cook Intermediate Service Center No. 4 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 South Cook Intermediate Service Center No. 4 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 South Cook Intermediate Service Center No. 4's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison between governmental funds and governmental activities.

South Cook Intermediate Service Center No. 4 maintains individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and the Changes in Fund Balances for all these funds. These funds are considered major funds of South Cook Intermediate Service Center No. 4. More detail of the individual revenues and expenditures for these funds is presented in the supplementary section of this report.

South Cook Intermediate Service Center No. 4 is not legally required to adopt budgets. South Cook Intermediate Service Center No. 4 is required by the Illinois State Board of Education, the granting agency, to adopt annual budgets for the Education Fund of the governmental funds. A budgetary comparison schedule has been provided as supplementary information for the major education fund only, which is in compliance with GASB Statement No. 34.

Condensed Financial Information

Net assets are summarized in the table below.

	June 30, 2006	June 30, 2005
Assets:		
Current Assets	$6,130,179	$3,822,636
Capital Assets	2,774,615	2,599,463
Total Assets	8,904,794	6,422,099
Liabilities:		
Current Liabilities	1,290,173	677,228
Non-current Liabilities	-0-	-0-
Total Liabilities	1,290,173	677,228
Net Assets:		
Invested Capital Assets, net of related debt	2,774,615	2,599,463
Unrestricted	4,840,006	3,145,408
Total Net Assets	$7,614,621	$5,744,871

Condensed Financial Information (continued)

Current assets consist of cash, investments, and accounts receivable-governmental claims.

South Cook Intermediate Service Center No. 4's net assets consist of unrestricted net assets which represent net assets that have not been restricted by an outside party and invested capital assets net of related debt. This includes funds that have been designated for specific uses as well as amounts that are contractually committed for goods and services.

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

Condensed Statement of Activities
For Fiscal Year Ending:

	June 30, 2006	June 30, 2005
Revenues received:		
Program:		
Operating grants and contributions	$ 5,885,796	$4,975,584
General:		
Local sources	824,751	1,896,344
On-behalf payments	87,546	103,840
Interest	149,136	86,526
Total revenue received	6,947,229	7,062,294
Expenditures disbursed:		
Instructional services:		
Supporting services	4,888,467	4,892,856
Community services	-0-	5,912
Nonprogrammed charges	101,466	141,227
Debt Service	-0-	20,310
Administrative services:		
On-behalf payments	87,546	103,840
Total expenditures disbursed	5,077,479	5,164,145
Change in net assets	1,869,750	1,898,149
Net assets – beginning	5,744,871	3,846,722
Net assets – ending	$ 7,614,621	$5,744,871

Major sources of operating revenues for South Cook Intermediate Service Center No. 4 include: Federal and State grants and intergovernmental revenue.

Management's Analysis of the ISC's Overall Financial Position and Results of Operations

GASB Statement No. 34 affects South Cook Intermediate Service Center No. 4's reporting model, but not the day-to-day operations or the budgeting process. South Cook Intermediate Service Center No. 4's total fund balance was $4,840,006.

Capital assets

During the year ended June 30, 2006, South Cook Intermediate Service Center No. 4 invested monies to various capital assets. The total amount invested in capital assets this year was $388,389. The invested amounts consisted primarily of computer equipment, building renovations, a garage, and a truck.

Unrestricted Net Assets

During the year, unrestricted net assets and net assets invested in capital assets increased $1,869,750 which is comparable to the prior year. Total revenue for fiscal year ended June 30, 2005 was $7,062,294 and decreased by $115,065 to $6,947,229 for fiscal year ended June 30, 2006. Expenses decreased by $86,666 from $5,164,145 in fiscal year ended June 30, 2005, to $5,077,479 during fiscal year ended June 30, 2006. The factors which have contributed to this condition are explained below.

Factors or Conditions Impacting Future Periods

On the revenue side, State grant revenue increased dramatically due primarily to the fact that the Regional Safe Schools and the Regional Safe Schools – State Aid Programs were considered State programs during the year ended June 30, 2006. Previously, in the first quarter of the year ended June 30, 2005 and in the entire previous year, these programs were considered federal programs. Federal grant revenue also increased during the year and the Center continues to place increasing reliance on State and Federal grants in place of local revenues.

On the expenditure side, increases in service demands by growing districts in the educational service region will continue to place increasing pressure on spending.

In summary, this expectation of continued increases in service demand will result in larger response times, a reduced array of services, and the need to do more with both fewer human resources and an increased reliance on State and Federal grant revenue.

Contacting the Intermediate Service Center's Financial Management

This financial report is designed to provide the South Cook Intermediate Service Center No. 4'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 South Cook Intermediate Service Center No. 4 at 253 West Joe Orr Road, Chicago Heights, IL.

BASIC FINANCIAL STATEMENTS

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Statement of Net Assets

June 30, 2006

ASSETS	Governmental Activities
Current assets:	
Cash and investments	$ 6,033,193
Accounts receivable - Governmental claims	96,986
Total current assets	6,130,179
Noncurrent assets:	
Capital Assets, being depreciated, net	2,774,615
Total assets	8,904,794
LIABILITIES	
Current Liabilities:	
Accounts payable	248,913
Due to other governments	840,390
Deferred revenue	200,870
Total current liabilities	1,290,173
NET ASSETS	
Invested capital assets, net of related debt	2,774,615
Unrestricted	4,840,006
Total net assets	$ 7,614,621

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Statement of Activities

Year Ended June 30, 2006

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities
FUNCTIONS/PROGRAMS			
Primary government:			
Governmental activities:			
Instructional Services:			
Supporting Services	$ 4,888,467	$ 5,859,796	$ 971,329
Nonprogrammed Charges	101,466	26,000	(75,466)
Administrative:			
On-behalf payments	87,546	-0-	(87,546)
Total governmental activities	$ 5,077,479	$ 5,885,796	808,317
General revenues:			
Local sources			824,751
On-behalf payments			87,546
Interest			149,136
Total general revenues, special and extraordinary items, and transfers			1,061,433
Change in net assets			1,869,750
Net assets - beginning			5,744,871
Net assets - ending			$ 7,614,621

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Balance Sheet

Governmental Funds

June 30, 2006

		Education Fund
ASSETS		
Petty cash	$	200
Cash - Imprest Fund		10,000
Equity in pooled cash and investments		6,022,993
Accounts receivable - governmental claims		96,986
Total assets	$	6,130,179
LIABILITIES		
Accounts payable	$	248,913
Due to other governments		840,390
Deferred revenue		200,870
Total liabilities		1,290,173
FUND BALANCE		
Fund balance		4,840,006
Total liabilities and fund balances	$	6,130,179

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Total fund balance - governmental fund	$	4,840,006
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		2,774,615
Net assets of governmental activities	$	7,614,621

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Statement of Revenues, Expenditures and Changes in Fund Balance

Governmental Funds

Year Ended June, 30 2006

	Education Fund
REVENUES	
Local sources	$ 973,887
State sources	3,191,342
Federal sources	2,694,454
Total direct revenues	6,859,683
On-behalf payments	87,546
Total revenues	6,947,229
EXPENDITURES	
Current:	
Support services	5,063,619
Nonprogrammed charges	101,466
Total direct expenditures	5,165,085
On-behalf payments	87,546
Total expenditures	5,252,631
Excess of revenues over expenditures	1,694,598
Fund balance, July 1, 2005	3,145,408
Fund balance, June 30, 2006	$ 4,840,006

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds to the Statement of Activities

Year Ended June 30, 2006

Net change in fund balances			$	1,694,598
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	$	388,389		
Depreciation expense		(209,928)		
Net adjustment				178,461
Loss on disposal of capital assets				(3,309)
Change in net assets of governmental activities			$	1,869,750

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 be administered through three (3) Intermediate Service Centers (North Cook, West Cook and South Cook).

South Cook now known as South Cook Intermediate Service Center No. 4 includes the area within the territorial boundaries of the following school districts:

Summit School Dist. No. 104	Willow Springs School Dist. No. 108	Indian Springs School Dist. No. 109
Central Stickney School Dist. No. 110	Burbank School Dist. No. 111	Lemont-Bromberek School Dist. No. 113A
North Palos School Dist. No. 118	Palos Com. Cons. School Dist. No. 118	Ridgeland School Dist. No. 122
Oak Lawn-Hometown School Dist. No. 123	Evergreen Park School Dist. No. 124	Atwood Heights School Dist. No. 125
Alsip/Hazelgreen/Oak Lawn School Dist. No. 126	Worth School Dist. No. 127	Chicago Ridge School Dist. No. 127 ½
Palos Heights School Dist. No. 128	Blue Island School Dist. No. 130	Calumet Park School Dist. No. 132
Patton School Dist. No. 133	Orland Park School Dist. No. 135	Kirby School Dist. No. 140
Forest Ridge School Dist. No. 142	Midlothian School Dist. No. 143	Posen-Robbins School Dist. No. 143 ½
Prairie-Hills School Dist. No. 144	Arbor Park School Dist. No. 145	Tinley Park School Dist. No. 146
Harvey/Dixmoor School Dist. No. 147	Dolton West School Dist. No. 148	Dolton School Dist. No. 149
South Holland School Dist. No. 150	South Holland School Dist. No. 151	Harvey School Dist. No. 152
Hazel Crest School Dist. No. 152 ½	Homewood School Dist. No. 153	Thornton School Dist. No. 154
Burnham School Dist. No. 154 ½	Calumet City School Dist. No. 155	Lincoln School Dist. No. 156
Hoover/Schrum School Dist. No. 157	Lansing School Dist. No. 158	Elementary District School Dist. No. 159
Country Club Hills School Dist. No. 160	Flossmoor School District No. 161	Matteson School District No. 162
Park Forest-Chicago Heights School Dist. No. 163	Brookwood School District No. 167	Community Consolidated School Dist. No. 168
Ford Heights School Dist. No. 169	Chicago Heights School District No. 170	Sunnybrook School Dist. No. 171
Sandridge School Dist. No. 172	Steger School District No. 194	Thornton Twp. H.S. Dist. No. 205
Bicom Twp. H.S. Dist. No. 206	Lemont Twp. H.S. Dist. No. 210	T-F Township H.S. Dist. No. 215
Argo Community H.S. Dist. No. 217	Community H.S. Dist. No. 218	Reavis H.S. Dist. No. 220
Rich Twp H.S. Dist. No. 227	Bremen Community H.S. Dist. No. 228	Oak Lawn Community H.S. Dist. No. 229
Consolidated H.S. Dist. No. 230	Evergreen Park H.S. Dist. No. 231	H-F Community H.S. Dist. No. 233

South Cook Intermediate Service Center No. 4 is governed by an eleven member board and the administrative agent designated for this center is Rob Grossi, Chicago Heights Bloom Township 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, inservice training, and staff development.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

South Cook Intermediate Service Center No. 4 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 South Cook Intermediate Service Center No. 4.

A. Reporting Entity:

South Cook Intermediate Service Center No. 4 provides educational services to sixty-six 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.

These financial statements include South Cook Intermediate Service Center No. 4 and its component units, entities for which it is considered financially accountable. As defined by GASB Statement 14, "The Financial Reporting Entity", South Cook Intermediate Service Center No. 4 is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with South Cook Intermediate Service Center No. 4 are such that exclusion would cause South Cook Intermediate Service Center No. 4's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, South Cook Intermediate Service Center No. 4 is not aware of any entity which would be financially accountable for South Cook Intermediate Service Center No. 4, which would result in the South Cook Intermediate Service Center No. 4 being considered a component entity.

B. Adoption of New Accounting Standard:

In June 1999, GASB unanimously approved Statement No. 34, "*Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*,"; Statement No. 37 "*Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Government*,"; and Statement No. 38 "*Certain Financial Statement Note Disclosures*". Effective during this current year GASB approved Statement No. 40 "*Deposit and Investment Risk Disclosures*". Certain significant changes in the Statements include the following:

The financial statements include:

A Management's Discussion and Analysis (MD&A) providing an analysis of the ISC's overall financial position and results of operations.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to the financial statements) as of June 30, 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Government-Wide and Fund Financial Statements:

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the Intermediate Service Center. These basic 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 the 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.

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.

The Statement of Net Assets presents information on all of South Cook Intermediate Service Center No. 4's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of South Cook Intermediate Service Center No. 4 is improving or deteriorating. The net assets of the Intermediate Service Center are classified as follows:

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

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

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

D. Measurement Focus, Basis of Accounting and Basis of Presentation:

The accounts of South Cook Intermediate Service Center No. 4 are organized and operated on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Measurement Focus, Basis of Accounting and Basis of Presentation (continued):

South Cook Intermediate Service Center No. 4 has the following fund types:

Governmental funds are used to account for general governmental activities. The governmental fund uses the flow of current financial resources measurement focus and the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e. when they are "measurable and available"). "Measurable" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. A one-year availability period is used for the governmental fund revenues.

State and federal aid and interest on investments are susceptible to accrual. Other receipts become measurable and available when cash is received and are recognized as revenue at that time.

The Education Fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

All federal, State and local programs are accounted for in the Education Fund. Federal grants that are accounted for and included in the Education Fund in the financial statements are as follows: Title II – Teacher Quality – Leadership Grant, Title I – School Improvement and Accountability, Title I – Reading First Part B SEA Funds, Title V – Innovative Programs – SEA Projects and Learn and Serve America.

State grants that are accounted for in the Education Fund are as follows: I.S.C. Operations, Reading Improvement, Standard Aligned Classroom, Governor Operating, Other State Programs, Learning Technology Center, Regional Safe Schools – General State Aid, and Regional Safe Schools.

Investment income and entitlements are considered susceptible to accrual. Other receipts become measurable and available when cash is received and are recognized as revenue at that time.

Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity:

Deposits and Investments

Cash and investments are in the custody of the Bloom Township School Treasurer, except for petty cash and imprest funds which are in the custody of South Cook Intermediate Service Center No. 4. The Treasurer maintains one bank account, records transactions of the general fund and invests any excess cash. These investments are made in the name of the Treasurer. The Treasurer also, at times, pools the funds with other districts under his control. A portion of the pool is reported on the combined balance sheet as "Equity in Pooled Cash and Investments".

The Illinois statutes authorize the Treasurer, on South Cook Intermediate Service Center No. 4's behalf, to invest in U.S. Government, State of Illinois and municipal securities; certificates of deposit or time savings deposits insured by the FDIC; mortgage notes, bonds or debentures issued by the Federal Housing Administration; bonds and other obligations of the Federal National Mortgage Association; and certain short-term obligations of U.S. corporations.

In the selection of the authorized investment vehicles, deposits in any one financial institution shall not exceed 75% of the capital surplus/net worth of the institution as required by the School Code.

Investments are stated at fair value.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets

Capital assets used in governmental fund types are recorded in the government-wide financial statements at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. All capital assets, except for construction in progress, are being depreciated using the straight-line method over the following useful life:

Equipment	7 years
Buildings	40 years

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

Long-Term Obligations

Long-term debt of the governmental fund is reported at face value in the government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Assets, Liabilities and Equity (continued):

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. New Accounting Pronouncements:

Effective for the year ending June 30, 2005, the Center adopted GASB Statement No. 40. *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3); which adds, modifies, and eliminates certain risk disclosures related to deposits and investments. 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, 2005, the Center adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), which clarifies the definition of legal enforceability as it relates to net assets restricted by enabling legislation and requires disclosure of the amount of net assets restricted by enabling legislation. 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, 2005, the Center adopted provisions related to pension transactions of Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers*, which clarifies pension and OPEB expenditure recognition requirements for cost-sharing employers. There was no significant impact on the Center's financial statement as a result of adopting this statement.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information:

The budget is prepared on the modified accrual basis of accounting for the government fund type which is an acceptable method as prescribed by the Illinois Compiled Statutes and is the same basis that is used for financial reporting. This allows for comparability between budget and actual amounts.

Federal grants administered that have budgets are as follows: Title II – Teacher Quality – Leadership Grant, Title I – School Improvement and Accountability, Title I – Reading First Part B SEA Funds, Title V – Innovative Programs – SEA Projects and Learn and Serve America.

State grants administered that have budgets are as follows: I.S.C. Operations, Reading Improvement Block, Standard Alignment, Governor Operating, Other State Revenue, Learning Technology Center, Regional Safe Schools – General State Aid and Regional Safe Schools

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (continued)

A. Budgetary Information (continued):

Budget appropriations lapse at the end of each fiscal year. South Cook Intermediate Service Center No. 4 does not utilize an encumbrance system. These procedures are followed in establishing the budgetary data reflected in the financial statements.

- The Executive Director submits to the Governing Board a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- Prior to October 1, the budget is reviewed through the passage of a resolution.
- The Executive Director is authorized to transfer up to 10% of the total budget between various items within the fund; however, any revisions that alter the total expenditures of the general fund must be approved by the Governing Board.
- Formal Budgetary integration is employed as a management control device during the year.
- The Governing Board may amend the budget (in other ways) by the same procedures required of its original budget.

The reported budgetary data represents the original budget as reviewed.

3. DETAILED NOTES ON FUND

A. Deposits and Investments:

Cash balances are maintained at one financial institution. All bank balances as of June 30, 2006 are entirely insured by the Federal Deposit Insurance Corporation.

At June 30, 2006, investment balances consisted of the following:

	Carrying Value/ Fair Value	Cost
Petty Cash	$ 200	$ 200
Cash Deposits	10,000	10,000
Investments not subject to categorization:		
Equity in pooled cash and investments of the Bloom Township School Treasurer	6,022,993	6,022,993
	$6,033,193	$6,033,193

Credit Risk. Credit risk is the risk of loss due to the failure of the security issuer or backer. The Trustees of Schools will minimize credit risk by:

- Limiting investments to the safest types of securities/financial instruments;
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the Trustees of Schools will do business; and
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

3. DETAILED NOTES ON FUND (continued)

A. Deposits and Investments (continued):

As of June 30, 2006, the credit ratings by Moody's or Standard and Poor's were A, AA, and AAA which are all average credit quality.

Interest Rate Risk. The Trustees of Schools will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Structuring the investment portfolio so that a significant portion of the securities either meet cash requirements for ongoing operations or have active secondary or resale markets; and
- Investment operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. Accounts Receivable - Governmental Claims:

Accounts receivable at June 30, 2006 consisted of the following amounts due from Federal and State programs:

Title II – Teacher Quality – Leadership Grant	$40,000
Other State Programs	56,986
	$96,986

C. Capital Assets:

The governmental activities capital assets activity for the year ended June 30, 2006 is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Cost:				
Equipment	$1,482,772	$228,681	$34,392	$1,677,061
Buildings	2,291,194	159,708	-0-	2,450,902
	$3,773,966	$388,389	$34,392	$4,127,963
Accumulated Depreciation:				
Equipment	$ 637,087	$147,432	$31,083	$ 753,436
Buildings	537,416	62,496	-0-	599,912
	$1,174,503	$209,928	$31,083	$1,353,348
Total Capital Assets, Net				
Equipment	$ 845,685	$ 81,249	$ 3,309	$ 923,625
Buildings	1,753,778	97,212	-0-	1,850,990
	$2,599,463	$178,461	$ 3,309	$2,774,615

3. DETAILED NOTES ON FUND (continued)

C. Capital Assets (continued):

Depreciation expense was charged to governmental functions as follows:

Support Services	$ 209,928

D. Deferred Revenue:

Deferred revenue is recognized in programs where program monies have been received but not yet spent. The following programs recognized deferred revenue at June 30, 2006:

Title I – Reading First Part B – SEA Funds	$ 200,870

E. Due to Other Governments:

Due to other governments has been recognized in the Title I – School Improvement and Accountability program where program monies were received but not spent and owed back to the awarding agency. (See finding 06-1).

Title I – School Improvement and Accountability	$ 840,390

4. OTHER INFORMATION

A. Risk Management:

South Cook Intermediate Service Center No. 4 is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and workers' compensation for which commercial insurance is carried. The amount of coverage has not decreased nor have the amount of settlements exceeded coverage in the current year or any of the past three years.

B. Employee Retirement Systems and Plans:

Teachers' Retirement System of the State of Illinois

South Cook Intermediate Service Center No. 4 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 primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the System's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate through June 30, 2006 was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. In addition, virtually all employers and members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The member THIS Fund contribution was 0.6 percent during year ended June 30, 2006, and the member THIS Fund health insurance contribution was 0.80 percent.

4. OTHER INFORMATION

B. Employee Retirement Systems and Plans:

Teachers' Retirement System of the State of Illinois

The State of Illinois makes contributions directly to TRS on behalf of TRS-covered employees.

- *On-behalf contributions.* The State of Illinois makes employer pension contributions on behalf of South Cook Intermediate Service Center No. 4. For the year ended June 30, 2006, the State of Illinois contributions were based on 7.06 percent of creditable earnings, and recognized revenue and expenditures of $87,546 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005 and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent ($103,840) and 13.98 percent ($135,236), respectively.

South Cook Intermediate Service Center No. 4 makes three other types of employer contributions directly to TRS.

- *2.2 formula contributions.* Employers contribute 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ended June 30, 2006 were $7,192. Contributions for the years ending June 30, 2005, and June 30, 2004, were $5,121 and $5,611, respectively.

- *Federal and trust fund contributions.* When TRS members are paid from federal and trust funds administered by South Cook Intermediate Service Center No. 4, there is a statutory requirement to pay an additional employer contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the State contribution rate to TRS. For the year ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the two years ended June 30, 2005, the employer contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2006, salaries totaling $83,018 were paid from federal and trust funds that required employer contributions of $5,861. For the years ended June 30, 2005 and June 30, 2004, required contributions were $8,345 and $31,311, respectively.

- *Early Retirement Option.* South Cook Intermediate Service Center No. 4 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 and under which ERO program the member retires. Under Public Act 94-0004, a "Pipeline ERO" program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007. If members do not met these conditions, they can retire under the "Modified ERO" program which requires higher member and employer contributions to TRS.

4. OTHER INFORMATION (continued)

B. Employee Retirement Systems and Plans (continued):

Teachers' Retirement System of the State of Illinois (continued)

- *Early Retirement Option (continued).* Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO). Under the ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member's highest salary used in the final average salary calculation. Under the Modified ERO, the maximum employer contribution is 117.5 percent. Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement. For the year ended June 30, 2006, the Center paid $-0- to TRS for employer contributions under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2005 and June 30, 2004, the Center paid $-0- in employer ERO contributions.

TRS financial information, an explanation of TRS benefits and descriptions of member and state funding requirements can be found in the TRS Comprehensive Annual Financial Report for the year ended June 30, 2005. The report for the year ended June 30, 2006 is expected to be available late 2006. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, Illinois 62794-9253. The most current report is also available on the TRS web site at www.trs.state.il.us.

Illinois Municipal Retirement Fund

South Cook Intermediate Service Center No. 4's defined benefit pension plan, Illinois Municipal Retirement Fund (IMRF), provides retirement, disability, annual cost of living adjustments and death benefits to plan members and beneficiaries. IMRF acts as a common investment and administrative agent for local governments and school districts in Illinois. The Illinois Pension Code establishes the benefit provisions of the plan that can only be amended by the Illinois General Assembly. IMRF issues a financial report that includes financial statements and required supplementary information. That report may be obtained at www.imrf.org/pubs/pubs_homepage.htm or by writing to the Illinois Municipal Retirement Fund, 2211 York Road, Suite 500, Oak Brook, Illinois 60523.

Employees participating in IMRF are required to contribute 4.50% of their annual covered salary. The member rate is established by state statute. South Cook Intermediate Service Center No. 4 is required to contribute at an actuarially determined rate. The employer rate for calendar year 2005 was 10.56% of payroll. The employer contribution requirements are established and may be amended by the IMRF Board of Trustees. IMRF's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis (overfunded liability amortized on open basis). The amortization period at December 31, 2005 was 5 years.

4. OTHER INFORMATION (continued)

B. Employee Retirement Systems and Plans (continued):

Illinois Municipal Retirement Fund (continued)

For December 31, 2005, the annual pension cost of $63,592 was equal to required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return (net of administrative expenses), (b) projected salary increases of 4.00% a year, attributable to inflation, (c) additional projected salary increases ranging from 0.4% to 11.6% per year depending on age and service, attributable to seniority/merit; and (d) post-retirement benefit increases of 3% annually. The actuarial value of IMRF assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period with a 15% corridor. The assumptions used for the 2005 actuarial valuation were based on the 2002-2004 experience study.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/05	63,592	100%	$0
12/31/04	30,276	100%	$0
12/31/03	24,356	100%	$0
12/31/02	8,726	100%	$0
12/31/01	14,594	100%	$0
12/31/00	3,083	100%	$0
12/31/99	8,053	100%	$0
12/31/98	11,146	100%	$0
12/31/97	9,907	100%	$0
12/31/96	12,761	100%	$0

5. CHANGE IN ACCOUNTING PRINCIPLES

Effective for the year ending June 30, 2006, the Center adopted GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which establishes standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The Center has determined there was no impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2006, the Center also adopted GASB Statement No. 47, *Accounting for Termination Benefits*, which establishes accounting and financial reporting standards for termination benefits. The Center has determined there was no impact on the Center's financial statements as a result of adopting this statement.

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

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Illinois Municipal Retirement Fund – Schedule of Funding Progress

(Unaudited)

June 30, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	474,816	597,857	123,041	79.42%	602,194	20.43%
12/31/04	365,325	482,612	117,287	75.70%	401,539	29.21%
12/31/03	313,946	337,990	24,044	92.89%	322,177	7.46%
12/31/02	296,042	279,210	(16,832)	106.03%	307,261	0.00%
12/31/01	253,240	220,501	(32,739)	114.85%	273,298	0.00%
12/31/00	252,135	194,943	(57,192)	129.34%	168,480	0.00%
12/31/99	211,903	168,081	(43,822)	126.07%	151,091	0.00%
12/31/98	167,320	144,858	(22,462)	115.51%	154,802	0.00%
12/31/97	179,282	165,768	(13,514)	108.15%	166,435	0.00%
12/31/96	153,263	147,986	(5,277)	103.57%	175,063	0.00%

On a market value basis, the actuarial value of assets as of December 31, 2005 is $481,037. On a market basis, the funded ratio would be 80.46%.

Digest of Changes-

The actuarial assumptions used to determine the actuarial accrued liability for 2005 are based on the 2002-2004 Experience Study.

The principal changes were:

- The 1994 Group Annuity Mortality implemented.
- For Regular members, fewer normal and more early retirements are expected to occur.

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Budgetary Comparison Schedule

Education Fund Accounts

Year Ended June 30, 2006

REVENUES	Budget	Actual	Variance Favorable (Unfavorable)
Local Sources			
Interest	$ 35,000	$ 149,136	$ 114,136
Services Provided Other LEA's	1,147,812	824,751	(323,061)
Total Local Sources	1,182,812	973,887	(208,925)
State Sources			
Regional Safe Schools-General State Aid	706,192	706,192	-0-
Regional Safe Schools Program	1,196,928	1,196,928	-0-
Reading Improvement	-0-	3,040	3,040
Governor Operating	181,514	182,426	912
Other State Programs	850,000	994,418	144,418
I.S.C. Operations	45,369	45,369	-0-
Standard Aligned Classroom	33,000	42,000	9,000
Learning Technology Center	13,219	20,969	7,750
Total State Sources	3,026,222	3,191,342	165,120
Federal Sources			
Learn and Serve America	10,000	14,492	4,492
Title V - Innovative Programs - SEA Projects	-0-	67,919	67,919
Title I - School Improvement and Accountability	2,139,918	1,874,570	(265,348)
Title II - Teacher Quality - Leadership Grant	100,000	100,000	-0-
Title I - Reading First Part B SEA Funds	1,370,038	637,473	(732,565)
Total Federal Sources	3,619,956	2,694,454	(925,502)
Total Direct Revenues	7,828,990	6,859,683	(969,307)
On-behalf Payments	-0-	87,546	87,546
Total Revenues	7,828,990	6,947,229	(881,761)

OTHER SUPPLEMENTARY INFORMATION

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Budgetary Comparison Schedule

Education Fund Accounts (Continued)

Year Ended June 30, 2006

EXPENDITURES	Budget	Actual	Variance Favorable (Unfavorable)
Support Services			
Instructional Staff			
Instruction			
Salaries	800,420	883,049	(82,629)
Employee Benefits	103,896	109,529	(5,633)
Supplies and Materials	21,700	51,466	(29,766)
Capital Outlay	30,000	55,268	(25,268)
Attendance and Social Work Services			
Salaries	85,000	95,418	(10,418)
Employee Benefits	13,786	14,718	(932)
Purchased Services	-0-	9,200	(9,200)
Improvement of Instruction Services			
Salaries	426,945	425,670	1,275
Employee Benefits	123,892	136,456	(12,564)
Purchased Services	3,098,568	783,963	2,314,605
Supplies and Materials	733,150	393,188	339,962
Capital Outlay	222,936	126,586	96,350
Educational Media Services			
Purchased Services	-0-	8,000	(8,000)
Supplies and Materials	4,000	2,464	1,536
Total Instructional Staff	5,664,293	3,094,975	2,569,318
General Administration			
Board of Education Services			
Purchased Services	82,675	56,689	25,986
Executive Administration Services			
Salaries	353,814	346,473	7,341
Employee Benefits	61,317	114,770	(53,453)
Purchased Services	120,897	151,872	(30,975)
Supplies and Materials	45,000	9,435	35,565
Capital Outlay	10,000	27,661	(17,661)
Other Objects	7,000	5,999	1,001

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Budgetary Comparison Schedule

Education Fund Accounts (Continued)

Year Ended June 30, 2006

EXPENDITURES	Budget	Actual	Variance Favorable (Unfavorable)
Office of Principal Services			
Salaries	266,931	265,847	1,084
Employee Benefits	34,539	32,957	1,582
Purchased Services	-0-	576	(576)
Total General Administration	982,173	1,012,279	(30,106)
Business			
Fiscal Services			
Purchased Services	86,000	64,854	21,146
Facility Acquisition & Construction Services			
Purchased Services	129,500	-0-	129,500
Capital Outlay	-0-	164,846	(164,846)
Operation and Maintenance of Plant Services			
Salaries	246,908	236,275	10,633
Employee Benefits	32,001	28,305	3,696
Purchased Services	108,056	136,070	(28,014)
Supplies and Materials	55,000	67,562	(12,562)
Capital Outlay	16,000	8,910	7,090
Pupil Transporation			
Purchased Services	4,751	11,315	(6,564)
Food Services			
Purchased Services	-0-	11,242	(11,242)
Central			
Planning, Research and Development and Evaluation Services			
Salaries	-0-	9,500	(9,500)
Employee Benefits	-0-	1,500	(1,500)
Purchased Services	30,000	-0-	30,000
Supplies and Materials	-0-	25,439	(25,439)
Data Processing Services			
Salaries	135,000	144,872	(9,872)
Employee Benefits	24,358	25,952	(1,594)
Purchased Services	70,000	-0-	70,000
Supplies and Materials	10,000	-0-	10,000
Total Business	947,574	936,642	10,932

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Budgetary Comparison Schedule

Education Fund Accounts (Continued)

Year Ended June 30, 2006

EXPENDITURES	Budget	Actual	Variance Favorable (Unfavorable)
Other Support Services			
Employee Benefits	-0-	52	(52)
Purchased Services	-0-	19,671	(19,671)
Total Other Support Services	-0-	19,723	(19,723)
Total Support Services	7,594,040	5,063,619	2,530,421
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	84,950	101,466	(16,516)
Total Direct Expenditures	7,678,990	5,165,085	2,513,905
On-behalf Payments	-0-	87,546	(87,546)
Total Expenditures	7,678,990	5,252,631	2,426,359
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 150,000	1,694,598	$ 1,544,598
Fund Balance, July 1, 2005		3,145,408	
Fund Balance, June 30, 2006		$ 4,840,006	

SOUTH COOK INTERMEDIATE SERVICE CENTER NO. 4

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures 7/01/04 - 6/30/05 (C)	Expenditures 7/01/05 - 06/30/06 (D)
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title I - School Improvement and Accountability (M)	84.010A	06-4331-SS		1,299,528
Title I - School Improvement and Accountability (M)	84.010A	05-4331-SS	1,514,085	575,042
			1,514,085	1,874,570
Title II - Teacher Quality - Leadership Grant	84.340A	06-4935-SS		100,000
Title V - Innovative Programs - SEA Projects	84.298A	05-4105-00	132,081	67,919
Title I - Reading First Part B SEA Funds	84.357A	06-4337-04		216,237
Title I - Reading First Part B SEA Funds	84.357A	06-4337-02		31,457
Title I - Reading First Part B SEA Funds	84.357A	06-4337-01		185,879
Title I - Reading First Part B SEA Funds	84.357A	06-4337-00		110,556
Title I - Reading First Part B SEA Funds	84.357A	05-4337-00	43,101	20,964
Title I - Reading First Part B SEA Funds	84.357A	05-4337-02	25,405	43,836
Title I - Reading First Part B SEA Funds	84.357A	05-4337-04	32,948	28,544
			101,454	637,473
U.S. Dept. of Health and Human Services passed through Illinois State Board of Education (ISBE):				
Learn & Serve America	94.004	06-4910-00		10,000
Learn & Serve America	94.004	05-4910-00	5,508	4,492
			5,508	14,492
Total Expenditures of Federal Awards			$ 1,753,128	$ 2,694,454

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

The accompanying notes are an integral part of this schedule.

FEDERAL COMPLIANCE SECTION

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of South Cook Intermediate Service Center No. 4 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 basic financial statements.

NOTE 2 – SUBRECIPIENTS

Of the federal expenditures presented in the schedule, South Cook Intermediate Service Center No. 4 provided federal awards to subrecipients were as follows:

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

NOTE 3 – DESCRIPTION OF MAJOR PROGRAM

The following federal program was audited as a major program in accordance with the requirements of 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 Southern Cook County. Services initially are targeted in 69 elementary and high schools now on the Academic Early Warning List (AEWL), with provision to support additional schools when they are identified. Moreover, schools in jeopardy of being identified as low-performing will be encouraged to access school improvement resources on a fee for services basis.

The goals of the program are to:

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

NOTE 4 – NONCASH ASSISTANCE

-NONE-

NOTE 5 – LOAN AND LOAN GUARANTEES OUTSTANDING

-NONE-

NOTE 6 – INSURANCE

-NONE-