

STATE OF ILLINOIS
NORTH COOK
INTERMEDIATE SERVICE CENTER NO. 1
FINANCIAL AUDIT
(IN ACCORDANCE WITH THE SINGLE AUDIT ACT
AND OMB CIRCULAR A-133)
FOR THE YEAR ENDED JUNE 30, 2005

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
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OFFICIALS

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Executive Director	(Current and during audit period)	Dr. Barbara Habschmidt
Administrative Assistant	(Current and during audit period)	Ms. Cindy Cirillo
Business Manager	(Current and during audit period)	Mr. Joseph Monahan
Bookkeeper	(Current and during audit period)	Ms. Sandi Ziemblicki

Offices are located at:

2340 Des Plaines River Rd.
Des Plaines, IL 60018-3292

COMPLIANCE REPORT
SUMMARY

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

AUDITORS' REPORTS

The auditors' reports on compliance and on internal controls do not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF AUDIT FINDINGS

<u>Number of</u>	<u>This Audit</u>	<u>Prior Audit</u>
Audit findings	-0-	-0-
Repeated audit findings	-0-	-0-
Prior recommendations implemented or not repeated	-N/A-	-N/A-

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Description</u>
	FINDINGS (GOVERNMENT AUDITING STANDARDS)
	-N/A-
	FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)
	-N/A-
	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 November 3, 2005. Attending were Dr. Barbara Habschmidt, Executive Director and Sandi Ziemblicki, Bookkeeper. Also attending was Jeff Johnson, CPA, Senior Manager from Lindgren, Callihan, Van Osdol & Co., LTD. There were no audit findings to discuss.

FINANCIAL STATEMENT
REPORT SUMMARY

The audit of the accompanying basic financial statements of North Cook Intermediate Service Center No. 1 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.



INDEPENDENT AUDITOR'S 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 North Cook Intermediate Service Center No. 1, as of and for the year ended June 30, 2005, which collectively comprise the North Cook Intermediate Service Center No. 1's basic financial statements as listed in the table of contents. These financial statements are the responsibility of North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No. 1, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2005 on our consideration of North Cook Intermediate Service Center No. 1's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Illinois Municipal Retirement Fund Schedule of Funding Progress, on pages 11 through 14, and page 34, are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Cook Intermediate Service Center No. 1'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.

Ludyn, Callihan, Van Osdol & Co., Ltd.

Dixon, Illinois
May 30, 2006



**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 North Cook Intermediate Service Center No. 1, as of and for the year ended June 30, 2005, which collectively comprise the North Cook Intermediate Service Center No. 1's basic financial statements and have issued our report thereon dated December 12, 2005. 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 North Cook Intermediate Service Center No. 1'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. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Cook Intermediate Service Center No. 1'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*.

In our opinion, North Cook Intermediate Service Center No. 1 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, 2005.

Internal Control Over Compliance

The management of North Cook Intermediate Service Center No. 1 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 North Cook Intermediate Service Center No. 1'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 internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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.

Lidger, Callahan, Van Osdol & Co., Ltd.

Dixon, Illinois
May 30, 2006



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 North Cook Intermediate Service Center No. 1 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, 2005. North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No.1's management. Our responsibility is to express an opinion on North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No. 1'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 on North Cook Intermediate Service Center No. 1's compliance with those requirements.

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, the 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.

Sidgen, Collier, Van Osdel } Co., P.C.

Dixon, Illinois
May 30, 2006

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Schedule of Findings and Questioned Costs

Year Ended June 30, 2005

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

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

Federal Award:

Internal Control over major programs:

- Material weakness(es) identified? yes X 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: Unqualified

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.558	Regional Safe Schools TANF (first quarter of fiscal year's revenues and expenses)
93.558	Regional Safe Schools - General State Aid TANF (first quarter of fiscal year's revenues & expenses)

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings – N/A

1. *Criteria/specific requirement:*
2. *Condition:*
3. *Questioned Cost:*
4. *Context:*
5. *Effect:*
6. *Cause:*
7. *Recommendation*
8. *Management's response:*

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings – N/A

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2005

-N/A-

MANAGEMENT'S DISCUSSION AND ANALYSIS
(REQUIRED SUPPLEMENTARY INFORMATION)

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Required Supplementary Information

Management Discussion and Analysis

Year Ended June 30, 2005

As management of North Cook Intermediate Service Center No. 1, we offer the readers of the financial statements this narrative overview and analysis of the financial activities of North Cook Intermediate Service Center No. 1 for the year ended June 30, 2005.

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 (2005) and the prior year (2004), is required to be presented in the MD&A.

MD&A is provided at the beginning of the report to provide an overview of North Cook Intermediate Service Center No. 1's financial position at June 30, 2005 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 North Cook Intermediate Service Center No. 1: 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 North Cook Intermediate Service Center No. 1's overall financial status, similar to a private sector business. In the government-wide financial statements, activities are shown in one category – governmental activities. North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No. 1 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 the service or goods are received.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Required Supplementary Information Management Discussion and Analysis (Continued) Year Ended June 30, 2005

Fund Financial Statements

The fund financial statements provide more detailed information about North Cook Intermediate Service Center No. 1's funds – not North Cook Intermediate Service Center No. 1 as a whole. Funds are specific segregations of cash and accounting devices North Cook Intermediate Service Center No. 1 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 North Cook Intermediate Service Center No. 1 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 North Cook Intermediate Service Center No. 1'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.

North Cook Intermediate Service Center No. 1 maintains an individual governmental fund. 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 this fund. This fund is considered a major fund of North Cook Intermediate Service Center No. 1. More detail of the individual revenues and expenditures for this fund is presented in the supplementary section of this report.

North Cook Intermediate Service Center No. 1 is not legally required to adopt a budget, but an annual budget is adopted for the Education Fund. Illinois State Board of Education, a granting agency, requires the North Cook Intermediate Service Center No. 1 to adopt budgets for certain program revenues. A budgetary comparison statement has been provided as supplementary information for the Education Fund only, which is in compliance with GASB Statement No. 34.

Condensed Financial Information

Net assets are summarized in the table below.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Assets:		
Current Assets	\$2,533,978	\$1,844,751
Capital Assets	<u>200,028</u>	<u>122,735</u>
Total Assets	<u>2,734,006</u>	<u>1,967,486</u>
Liabilities:		
Current Liabilities	503,254	119,391
Non-current Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>503,254</u>	<u>119,391</u>
Net Assets:		
Investments in capital assets, net of debt	200,028	122,735
Unrestricted	<u>2,030,724</u>	<u>1,725,360</u>
Total Net Assets	<u>\$2,230,752</u>	<u>\$1,848,095</u>

Current assets consist of cash and investments, prepaid expenses, accrued interest receivable, and accounts receivable – governmental claims.

As of June 30, 2005, North Cook Intermediate Service Center No. 1 had no outstanding long-term debt.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Required Supplementary Information Management Discussion and Analysis (Continued) Year Ended June 30, 2005

North Cook Intermediate Service Center No. 1's net assets consist of unrestricted net assets which represent net assets that have not been restricted by an outside party. This includes funds that have been designated for specific uses as well as amounts that are contractually committed for goods and services.

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

Condensed Statement of Activities For Fiscal Years Ending:		
	June 30, 2005	June 30, 2004
Revenues received:		
Program:		
Operating grants and contributions	\$2,699,162	\$2,172,807
General:		
Local sources	1,509,957	1,227,371
On-behalf payments	172,159	190,604
Interest	37,478	33,700
Miscellaneous	650	2,940
Total revenue received	<u>4,419,406</u>	<u>3,627,422</u>
Expenditures disbursed:		
Instructional services:		
Instruction	1,054,067	820,265
Supporting Services	2,389,673	2,338,913
Community Services	861	32,579
Nonprogrammed Changes	406,882	301,387
Administrative services:		
On-behalf payments	172,159	190,604
Unallocated Depreciation Expense	13,107	10,189
Total expenditures disbursed	<u>4,036,749</u>	<u>3,693,937</u>
Change in net assets	382,657	(66,515)
Beginning net assets	<u>1,848,095</u>	<u>1,914,610</u>
Ending net assets	<u>\$2,230,752</u>	<u>\$1,848,095</u>

Major sources of operating revenues for North Cook Intermediate Service Center No. 1 include: Federal and State grants, and local tuition fees.

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

As shown in the table above, the cost of governmental activities for this year was \$4,036,749. Federal and State grants financed almost two thirds of this or \$2,699,162. Local sources consisting of primarily tuition was the next largest contributor with \$1,509,957.

Capital assets

During the year ended June 30, 2005, the North Cook Intermediate Service Center No. 1 invested \$128,482 in new computers and other miscellaneous computer hardware.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Required Supplementary Information Management Discussion and Analysis (Continued) Year Ended June 30, 2005

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

Unrestricted net assets

During the year unrestricted net assets and net assets invested in capital assets increased \$382,657, due to the fact that local and State revenue increased at a higher rate over expenses from a year ago. Total revenue for fiscal year ended June 30, 2004 was \$3,627,422 and increased by \$791,984 to \$4,419,406 for fiscal year ended June 30, 2005, (primarily due to increased local and state revenue for fiscal year ended June 30, 2005). Expenses increased by \$342,812 from \$3,693,937 in fiscal year ended June 30, 2004, to \$4,036,749 during fiscal year ended June 30, 2005. This trend of revenues increasing beyond expenses is expected to continue for the coming year and future years. 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 final three quarters of the year ended June 30, 2005. Previously, in the first quarter of the year ended June 30, 2005 and in the entire previous year, these programs were considered federal programs.

During the year, Federal grant revenues have decreased dramatically for reasons mentioned in the previous paragraph.

On the expenditure side increases in service demands by growing districts in the educational service region will place 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 less revenue.

Contacting the Intermediate Service Center's Financial Management

This financial report is designed to provide the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, agency management, others within the organization, Illinois State Board of Education, Federal award agencies and pass-through entities with a general overview of North Cook Intermediate Service Center No. 1's finances and to demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, please contact Dr. Barbara Habschmidt, Executive Director, 2340 Des Plaines River Road, Des Plaines, IL 60018-3292.

BASIC FINANCIAL STATEMENTS

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Statement of Net Assets - Governmental Activities

June 30, 2005

ASSETS

Current assets:

Cash and investments	\$ 2,476,341
Prepaid expenses	36,532
Accrued interest receivable	16,405
Accounts receivable - Governmental claims	4,700

Total current assets 2,533,978

Noncurrent assets:

Capital Assets, being depreciated, net	<u>200,028</u>
--	----------------

Total noncurrent assets 200,028

Total assets 2,734,006

LIABILITIES

Current Liabilities:

Accounts payable	259,763
Deferred revenue	200,648
Accrued payroll liabilities	42,843

Total current liabilities 503,254

NET ASSETS

Invested capital assets, net of related debt 200,028

Unrestricted (deficit) 2,030,724

Total net assets \$ 2,230,752

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Statement of Activities Year Ended June 30, 2005

	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:			
Instruction	\$ 1,054,066	\$ 817,448	\$ (236,618)
Supporting Services	2,389,674	1,507,088	(882,586)
Community Services	861	-0-	(861)
Nonprogrammed Charges	406,882	374,626	(32,256)
Administrative:			
On-behalf payments	172,159	-0-	(172,159)
Unallocated Depreciation Expense	13,107	-0-	(13,107)
Total governmental activities	\$ 4,036,749	\$ 2,699,162	(1,337,587)
General revenues:			
Local sources			1,509,957
On-behalf payments			172,159
Interest			37,478
Miscellaneous			650
Total general revenues, special and extraordinary items, and transfers			1,720,244
Change in net assets			382,657
Net assets - beginning			1,848,095
Net assets - ending			\$ 2,230,752

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Balance Sheet Governmental Funds

June 30, 2005

	<u>Education Fund</u>
<u>ASSETS</u>	
Cash and investments	\$ 2,476,341
Prepaid expenses	36,532
Accrued interest receivable	16,405
Accounts receivable - Governmental claims	4,700
	<hr/>
Total assets	<u>\$ 2,533,978</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 259,763
Deferred revenue	200,648
Accrued payroll liabilities	42,843
	<hr/>
Total liabilities	<u>503,254</u>
<u>FUND BALANCE</u>	
Fund balance - unrestricted	<u>2,030,724</u>
Total fund balance	<u>2,030,724</u>
Total liabilities and fund balance	<u>\$ 2,533,978</u>

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005

Total fund balance - governmental fund	\$ 2,030,724
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.	<u>200,028</u>
Net assets of governmental activities	<u><u>\$ 2,230,752</u></u>

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
Statement of Revenues, Expenditures and Changes in Fund Balance
Education Fund
Year Ended June 30, 2005

	Governmental Fund Type Education Fund
<u>REVENUES</u>	
Local Sources	\$ 1,548,085
State Sources	1,741,282
Federal Sources	957,880
	4,247,247
Total Direct Revenues	4,247,247
On-behalf Payments	172,159
	4,419,406
Total Revenues	4,419,406
<u>EXPENDITURES</u>	
Current:	
Instruction	1,015,984
Supporting Services	2,518,156
Community Services	861
Nonprogrammed Charges	406,882
	3,941,883
Total Direct Expenditures	3,941,883
On-behalf Payments	172,159
	4,114,042
Total Expenditures	4,114,042
Excess of Revenues Over Expenditures	305,364
Fund Balance, Beginning of Year	1,725,360
	2,030,724
Fund Balance, End of Year	\$ 2,030,724

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

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

Governmental Funds

Year ended June 30, 2005

Net change in fund balances \$ 305,364

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	\$ 128,482	
Depreciation expense	<u>(51,189)</u>	<u>77,293</u>

Change in net assets of governmental activities \$ 382,657

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of North Cook Intermediate Service Center No. 1 conform to accounting principles generally accepted in the United States of America, as applicable to local governmental units of this type. The following is a summary of the more significant accounting policies.

A. Reporting Entity:

The purpose of North Cook Intermediate Service Center No. 1 shall be to provide services designed to be responsive to the specific needs of the schools in North Cook County. This area shall include the districts within the territorial boundaries of the following high school districts:

Evanston Township H.S. Dist. 202	New Trier Township H.S. Dist. 203
Maine Township H.S. Dist. 207	Township H.S. Dist. 211
Township H.S. Dist. 214	Niles Township Comm. H.S. Dist. 219
Northfield Township H.S. Dist. 225	

More specifically, North Cook Intermediate Service Center No 1 incorporates the following activities into its overall plan of services:

- Provide a variety of in service training and staff development opportunities to improve the knowledge and skills of educators.
- Coordinate the communication and data reporting requirements from local and regional programs and services to the State Board of Education and the State Superintendent of Education as needed.
- Serve as a clearinghouse for educational information and research.
- Serve as the primary regional delivery system for federal and/or state supported programs and services in education as authorized in Section 2-3.62 of The School Code or as directed by the State Superintendent of Education.
- Provide other services as set out in Section 500.50 of the Emergency Rules of the State Board of Education.

In evaluating how to define North Cook Intermediate Service Center No. 1 for financial reporting purposes, management has considered all potential component units. The decision to include or exclude a potential component unit in the reporting entity is made by applying the criteria set forth in Accounting Principles Generally Accepted in the United States of America. The definition of a component unit is a legally separate organization for which North Cook Intermediate Service Center No. 1 is financially accountable and other organizations for which the nature and significance of their relationship are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. North Cook Intermediate Service Center No. 1 is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on it. North Cook Intermediate Service Center No. 1 also may be financially accountable if an organization is fiscally dependent on it regardless of whether the organization has (1) a separately elected governing board, (2) a governing board appointed by a higher level of government or (3) a jointly appointed board. Even though there are local government agencies within the geographic area served by North Cook Intermediate Service Center No. 1, such as the municipality, library and park district, these agencies have been excluded from the report because they are legally separate and it is not financially accountable for them.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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". Additionally, in March 2003, GASB unanimously approved Statement No. 40 "Deposit and Investment Risk Disclosures". Certain of the 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 ROE'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, 2005.

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.

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 North Cook Intermediate Service Center No. 1'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 North Cook Intermediate Service Center No. 1 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 at this time.

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.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The accounts 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 that comprise its assets, liabilities, reserves, fund balance, revenues and expenditures or expenses as appropriate. 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 is maintained consistent with legal and managerial requirements.

The Center has the following fund types:

Governmental Funds are used to account for general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they are both “measurable and available”. “Measurable” means that the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. All revenues are considered available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which is recognized when due, and certain compensated absences, claims and judgements which are recognized when the obligations are expected to be liquidated with expendable available financial resources

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 IV – Community Service, Regional Safe Schools - General State Aid (first quarter of fiscal year’s revenues and expenses), Regional Safe Schools (first quarter of fiscal year’s revenues and expenses), Title I – Reading First Part B SEA Funds, K-12 Learn and Serve, Title I-School Improvement and Accountability, Title II-Teacher Quality-Leadership Grant, Title V-Innovative Programs, and Mathematics/Science Partnership.

State grants that are accounted for and included in the Education Fund are as follows: I.S.C. Operations, Regional Safe Schools-General State Aid (last three quarters of fiscal year’s revenues and expenses), Regional Safe Schools (last three quarters of fiscal year’s revenues and expenses), and other State Programs.

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 Center.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Government-wide and fund financial statements (continued):

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 North Cook Intermediate Service Center No. 1's assets and liabilities, with the difference between the two reported as net assets. Net assets of the Center are classified as Unrestricted Net Assets. Unrestricted Net Assets represent resources used for transactions relating to the general operations of the Center and may be used at the discretion of management to meet expenses for any purpose.

Separate financial statements are provided for governmental funds. Major individual governmental fund (Education Fund) is reported as a separate column in the fund financial statements.

E. Assets, Liabilities and Equity:

Deposits and Investments

State statutes authorize North Cook Intermediate Service Center No. 1 to invest in obligations of the U.S. Treasury, certain highly-rated commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Investments are stated at fair value.

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

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data:

Budgeted amounts for the Education Fund are adopted on the modified accrual basis, which is consistent with accounting principles generally accepted in the United States of America (GAAP).

Federal grants administered that have budgets are as follows: Title IV – Community Service, Regional Safe Schools-General State Aid, Regional Safe Schools, Mathematics/Science Partnership, Title I - Reading First Part B SEA Funds, K-12 Learn and Serve, Title I-School Improvement and Accountability, Title II-Teacher Quality-Leadership Grant, and Title V-Innovative Programs.

State grants administered that have budgets are as follows: I.S.C. Operations, Regional Safe Schools-General State Aid, Regional Safe Schools and Other State Programs.

North Cook Intermediate Service Center No. 1 has not legally adopted the budgets and is not required to do so. The Governing Board follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Administration submits to the Board of Education a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to August 31, the Governing Board reviews the budget.
3. Management is authorized to transfer budget amounts, provided funds are transferred between the same function and object codes. The Governing Board is authorized to transfer up to a legal level of 10% of the total budget between functions within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Governing Board after following the public hearing process mandated by law.
4. Formal budgetary integration is employed as a management control device during the year for the governmental fund.
5. Budgeted amounts for the governmental fund are adopted on a basis that is consistent with accounting principles generally accepted in the United States of America, with the exception of on-behalf payments made by other governmental units, which are not required to be budgeted under state laws and regulations and are not budgeted.
6. Appropriations lapse at the end of the fiscal year.
7. The budget amounts shown in the financial statements are as originally adopted because there were no amendments during the past fiscal year.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments:

Under the Illinois Compiled Statutes, school districts and related organizations are authorized to enter into contracts among themselves and to confirm and transfer powers and functions by intergovernmental cooperation. On July 1, 1996 the Wheeling Township Treasurer and Trustees were abolished. At this time, Community Consolidated School District No. 21, the Center's Administrative Agent, as well as a number of other districts in the township, entered into an intergovernmental agreement to transfer many of the duties and powers of the Township Treasurer to Township High School District No. 214.

Effective July 1, 2000, North Cook Intermediate Service Center No. 1 began utilizing Des Plaines School District No. 62 as its administrative agent in order to better facilitate accounting for its transactions. Township treasurer duties rest with Maine Township High School District No. 207 for Des Plaines School District No. 62 and a number of other districts. At June 30, 2000, all investments had been transferred to District No. 207.

District 207 invests excess funds at its discretion, subject to the legal restrictions discussed below. For these purposes, District 207 is permitted to combine monies from more than one fund of a single district and to combine monies of more than one district in the township. Monies combined under these circumstances as well as investment earnings are accounted for separately for each fund and/or district.

Cash and investments, other than the depository account and imprest funds, are part of a common pool for all school centers and cooperatives within the township. District 207 maintains records that segregate the cash and investment balance by district or cooperative. Income from investments is distributed monthly based upon the percentage participation in the pool.

At June 30, 2005, North Cook Intermediate Service Center No. 1 had a total of \$2,476,341 in cash and investments. This consists of \$2,473,944 held on deposit with District 207, a \$2,197 imprest account and \$200 cash on hand. Because all cash and investments are pooled by a separate legal governmental agency (District 207), categorization by risk category is not determinable.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits	<u>\$2,197</u>	<u>\$2,183</u>

The deposits shown above were fully covered by depository insurance.

Credit Risk

District 207's investment policies are established by an Advisory Board made up of representatives of the member districts as prescribed by the Illinois School Code and the Illinois Compiled Statutes. District 207 is authorized to invest in obligations of the U.S. Treasury, 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 (subject to certain limitations). As of June 30, 2005, the District's investment in the external pool was rated A-1+ and A-1 by Standard and Poor's and F-1+ and F-1 for short-term ratings and AA and A for long-term ratings by Fitch Ratings.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

3. DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued):

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District has no specific policy on the interest rate risk at year-end. Management guidelines suggest investments not to exceed six years in maturity from the date of purchase.

B. Accounts Receivable – Governmental Claims:

Amounts due from Federal and State programs are as follows at June 30, 2005:

Mathematics/Science Partnership	<u>\$4,700</u>
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C. Capital Assets:

The governmental activities capital asset activity for the year ended June 30, 2005 is as follows:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2005</u>
Cost:				
Equipment	<u>\$503,200</u>	<u>\$128,482</u>	<u>\$15,805</u>	<u>\$615,877</u>
Accumulated Depreciation:				
Equipment	<u>\$380,465</u>	<u>\$51,189</u>	<u>\$15,805</u>	<u>\$415,849</u>
Total Capital Assets, Net				
Equipment	<u>\$122,735</u>	<u>\$77,293</u>	<u>-0-</u>	<u>\$200,028</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$38,082
Depreciation not charged to a specific function	<u>13,107</u>
Total depreciation for governmental activities	<u>\$51,189</u>

D. Lease Commitments:

North Cook Intermediate Service Center No. 1 has entered into four operating leases as follows:

Lease 1: On December 10, 1999, a lease agreement was entered into for office and classroom suites in Des Plaines, IL. An amendment was made on September 21, 2005 which extends the lease until June 30, 2010. The lease required the following rental terms:

Upper level suite:	February 1, 2004 to January 31, 2005 at \$11,059.44 per month
	February 1, 2005 to January 31, 2006 at \$9,309.00 per month
	February 1, 2006 to January 31, 2007 at \$9,588.27 per month
	February 1, 2007 to January 31, 2008 at \$9,875.92 per month
	February 1, 2008 to January 31, 2009 at \$10,172.20 per month
	February 1, 2009 to January 31, 2010 at \$10,477.36 per month
	February 1, 2010 to June 30, 2010 at \$10,791.68 per month

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes To The Financial Statements

June 30, 2005

3. DETAILED NOTES ON ALL FUNDS (continued)

D. Lease Commitments (continued):

Lower level suite: February 1, 2004 to January 31, 2005 at \$8,639.26 per month
February 1, 2005 to January 31, 2006 at \$7,960.17 per month
February 1, 2006 to January 31, 2007 at \$8,198.97 per month
February 1, 2007 to January 31, 2008 at \$8,444.94 per month
February 1, 2008 to January 31, 2009 at \$8,698.29 per month
February 1, 2009 to January 31, 2010 at \$8,959.24 per month
February 1, 2010 to June 30, 2010 at \$9,228.01 per month

Lease 1 (Amendment): On February 1, 2003, an additional 1,610 square feet was rented for classroom suites in Des Plaines, IL. An amendment was made on September 21, 2005 which extends the lease to June 30, 2010. The lease required the following rental terms:

Additional suite: February 1, 2004 to January 31, 2005 at \$2,763.83 per month
February 1, 2005 to January 31, 2006 at \$2,415.00 per month
February 1, 2006 to January 31, 2007 at \$2,487.45 per month
February 1, 2007 to January 31, 2008 at \$2,562.07 per month
February 1, 2008 to January 31, 2009 at \$2,638.94 per month
February 1, 2009 to January 31, 2010 at \$2,718.10 per month
February 1, 2010 to June 30, 2010 at \$2,799.65 per month

Lease 2: On July 26, 2001, a lease agreement was entered into for property located in Arlington Heights, IL. This lease terminated on September 30, 2005. The lease required the following rental terms:

October 1, 2001 to September 30, 2002 at \$4,222 per month
October 1, 2002 to September 30, 2003 at \$4,348 per month
October 1, 2003 to September 30, 2004 at \$4,479 per month
October 1, 2004 to September 30, 2005 at \$4,614 per month

Lease 3: On August 1, 2003 a lease agreement was entered into for property located in Skokie, IL. The lease required the following rental terms:

August 1, 2003 to July 31, 2004 at \$11,484.60 per month
August 1, 2004 to July 31, 2005 at \$12,233.60 per month
August 1, 2005 to July 31, 2006 at \$12,982.60 per month
August 1, 2006 to July 31, 2007 at \$13,731.60 per month
August 1, 2007 to July 31, 2008 at \$14,480.60 per month

Lease 4: On April 22, 2005 a new lease agreement was entered into for property located in Palatine, IL. The lease required the following rental terms:

August 1, 2005 to July 31, 2006 at \$5,500.00 per month
August 1, 2006 to July 31, 2007 at \$6,000.00 per month
August 1, 2007 to July 31, 2008 at \$6,180.00 per month
August 1, 2008 to July 31, 2009 at \$6,365.00 per month
August 1, 2009 to July 31, 2010 at \$6,556.00 per month

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes to The Financial Statements

June 30, 2005

3. DETAILED NOTES ON ALL FUNDS (continued)

The leases carry no restrictions on the financial operating policies.

Minimum future rental payments under non-cancelable leases having remaining terms in excess of 1 year as of June 30, 2005 for each of the next five years and in the aggregate are:

Year Ended	
<u>June 30</u>	
2006	\$ 405,722
2007	481,868
2008	500,726
2009	352,015
2010 & years later	<u>354,217</u>
	<u>\$2,094,548</u>

4. OTHER INFORMATION

A. Risk Management:

North Cook Intermediate Service Center No. 1 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 Educational School Insurance Cooperative.

B. Employee Retirement Systems & Plans:

Teachers' Retirement System

North Cook Intermediate Service Center No. 1 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 that are employed by a TRS-covered employer to provide services for which teacher certification is required. The Active TRS members contribution rate through June 30, 2005 was 9 percent of their 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 employer THIS Fund contribution was 0.5 percent during the year ended June 30, 2005, and the member THIS Fund health insurance contribution was 0.75 percent.

The State of Illinois makes contributions directly to TRS on behalf of North Cook Intermediate Service Center No 1's TRS covered employees.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes to The Financial Statements

June 30, 2005

4. OTHER INFORMATION (continued)

B. Employee Retirement Systems & Plans (continued):

Teachers' Retirement System (continued)

- *On-behalf contributions.* The State of Illinois makes employer pension contributions on behalf of North Cook Intermediate Service Center No. 1. For the year ended June 30, 2005, State of Illinois contributions were based on 11.76 percent of creditable earnings, and the Center recognized revenue and expenditures of \$172,159 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2004, and June 30, 2003, the State of Illinois contribution rates as percentages of creditable earnings were 13.98 percent (\$190,604) and 13.01 percent (\$151,474), respectively.

North Cook Intermediate Service Center No. 1 makes three other types of employer contributions directly to TRS.

- *2.2 formula contributions.* For the year ended June 30, 2005 and June 30, 2004, employers contributed 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ending June 30, 2005 and June 30, 2004 were \$8,491 and \$7,898, respectively. For the year ended June 30, 2003, part of the employer's 2.2 formula contribution (.58 percent of pay) was reduced as a result of a new employer THIS Fund contribution for retiree health insurance (0.4 percent of pay). The remaining 0.18 percent was submitted to TRS. For the year ended June 30, 2003, contributions for the year ended were \$2,096.
- *Federal and trust fund contributions.* When TRS members are paid from federal and trust funds administered by the center, there is a statutory requirement to pay an additional contribution from those funds. For the three years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2005, salaries totaling \$14,343 were paid from federal and trust funds that required employer contributions of \$1,506. For the years ended June 30, 2004, and June 30, 2003, required center contributions were \$9,809 and \$-0- , respectively.
- *Early Retirement Option (ERO).* North Cook Intermediate Service Center No. 1 is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option. The payments vary depending on the age and salary of the member. No member or employer contributions are required if the member has 34 years of service. The maximum employer payment of 100 percent of the member's highest salary used in the calculation of final average salary is required if the member is 55 years old. For the year ending June 30, 2005, the center paid \$-0- for employer contributions under the Early Retirement Option. For the years ended June 30, 2004, and June 30, 2003, the center paid \$-0- and \$-0- , respectively.

Public Act 94-0004, which was signed into law on June 1, 2005, contained a number of provisions affecting employer and active member contributions. Most will not be effective or impact financial statements until the year ending June 30, 2006. The changes are summarized below:

- *Active Member Contributions.* The active member contribution rate will increase from the current 9.0 percent of creditable earnings to 9.4 percent beginning July 1, 2005. The increase is to help cover the cost of the new ERO program and will be refunded if the member does not retire under ERO.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes to The Financial Statements

June 30, 2005

4. OTHER INFORMATION (continued)

B. Employee Retirement Systems & Plans (continued):

Teachers' Retirement System (continued)

- *State/federal contributions.* Under a policy adopted by the Board of Trustees before Public Act 94-0004 was enacted, the employer contribution rate for employees paid from federal funds will be the same as the rate paid by the state. Under Public Act 94-0004, the state contribution rate in FY 2006 was reduced to 7.06 percent of pay. Therefore, the employer contribution rate for employees paid from federal funds in FY 2006 will be 7.06 percent, a decrease from the current 10.50 percent.

New Employer Contributions

- *Salary increases over 6 percent.* If employers grant salary increases in excess of 6 percent that are used in final average salary calculations, the employer will make a lump-sum contribution to TRS to cover the cost of the portion of the benefit due to salary increases over 6 percent. Public Act 94-0004, exempts salary increases granted under contracts and collective bargaining agreements in effect on June 1, 2005.
- *Sick Leave in excess of normal allotment.* If employers grant sick leave near retirement in excess of the normal annual allotment and that sick leave is counted as service credit, the employer will make a lump-sum contribution to TRS. The act exempts sick leave granted under contracts and collective bargaining agreements in effect on June 1, 2005.
- *Early retirement option.* In addition to changes described above, the following changes were made to ERO:
 1. Both active member and employer ERO contribution rates are increased. For employers, the maximum contribution increases from the current 100 percent of the member's highest salary used in the calculation of final average salary to 117.5 percent.
 2. The waiver of member and employer ERO contributions when the member has 34 years of service ended with the program that expired June 30, 2005.
 3. 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.
 4. Public Act 94-0004 provides for a review of the member and employer ERO contributions every five years to ensure that the program is revenue neutral.

TRS financial information, an explanation of TRS' 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, 2004. The report for the year ended June 30, 2005, is expected to be available in late 2005. 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, IL 62794-9253. The most current report is also available on the TRS Web site at www.trs.state.il.us.

Illinois Municipal Retirement Fund

North Cook Intermediate Service Center No 1'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.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes to The Financial Statements

June 30, 2005

4. OTHER INFORMATION (continued)

C. Employee Retirement Systems & Plans (continued):

Illinois Municipal Retirement Fund (continued)

IMRF issues a financial report that includes financial statements and required supplementary information. The 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 percent of their annual covered salary. The member rate is established by state statute. The Employer is required to contribute at an actuarially determined rate. The employer rate for calendar year 2004 was 1.03 percent 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, 2004 was 1 year.

For December 31, 2004, annual pension cost of \$2,108 was equal to required and actual contributions. The required contribution was determined as part of the December 31, 2002 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% per 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 2004 actuarial valuation were based on the 1999 – 2001 experience study.

TREND INFORMATION

Actuarial Valuation Date	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/04	2,108	100%	\$ -0-
12/31/03	10,843	100%	-0-
12/31/02	25,558	100%	-0-
12/31/01	37,194	100%	-0-
12/31/00	31,610	100%	-0-
12/31/99	27,911	100%	-0-
12/31/98	22,939	100%	-0-
12/31/97	18,684	100%	-0-
12/31/96	14,470	100%	-0-
12/31/95	13,346	100%	-0-

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Notes to The Financial Statements

June 30, 2005

5. PENDING GASB STATEMENTS

In April 2004, the Governmental Accounting Standards Board (GASB) issued Statement 43 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." This Statement amends certain provisions of Statement 25 and 26. The Center is required to implement this standard for the fiscal year ending June 30, 2007. The Center has not yet determined the full impact that adoption of GASB Statement 43 will have on the financial Statements.

In December 2004, the Governmental Accounting Standards Board (GASB) issued Statement 46 "Net Assets Restricted by Enabling Legislation." This Statement amends certain provision of Statement 34. The Center is required to implement this standard for the fiscal year ending June 30, 2006. The Center has not yet determined the full impact that adoption of GASB Statement 46 will have on the financial statements.

In June 2005, the Governmental Accounting Standards Board (GASB) issued Statement 47 "Accounting for Termination Benefits." This Statement amends certain provision of Statement 34. The Center is required to implement this standard for the fiscal year ending June 30, 2006. The Center has not yet determined the full impact that adoption of GASB Statement 47 will have on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
(OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS)

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
Illinois Municipal Retirement Fund - Schedule of Funding Progress
(Unaudited)
June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/04	396,586	352,506	(44,080)	112.50%	204,624	0.00%
12/31/03	383,201	301,271	(81,930)	127.19%	254,528	0.00%
12/31/02	385,699	347,026	(38,673)	111.14%	341,225	0.00%
12/31/01	299,536	270,555	(28,981)	110.71%	290,579	0.00%
12/31/00	214,025	218,772	4,747	97.83%	322,226	1.47%
12/31/99	141,165	218,055	76,890	64.74%	334,674	22.97%
12/31/98	208,935	231,721	22,786	90.17%	239,946	9.50%
12/31/97	226,399	227,770	1,371	99.40%	219,730	0.62%
12/31/96	210,866	219,224	8,358	96.19%	197,674	4.23%
12/31/95	178,576	184,650	6,074	96.71%	172,209	3.53%

On a market value basis, the actuarial value of assets as of December 31, 2004 is \$397,816. On a market basis, the funded ratio would be 112.85%.

* Digest of Changes

The actuarial assumptions used to determine the actuarial accrued liability for 2004 are based on the 1999 - 2001 Experience Study.

The principal changes were:

- Fewer members are expected to take refunds early in their career.
- For Regular members, fewer normal and early retirements are expected to occur.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Budgetary Comparison Schedule

Education Fund

Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Local Sources			
Interest	\$ -0-	\$ 37,478	\$ 37,478
Services Provided Other LEA's	1,903,910	1,509,957	(393,953)
Other	-0-	650	650
	<u>1,903,910</u>	<u>1,548,085</u>	<u>(355,825)</u>
Total Local Sources	<u>1,903,910</u>	<u>1,548,085</u>	<u>(355,825)</u>
State Sources			
Regional Safe Schools - General State Aid	-0-	520,847	520,847
Regional Safe Schools	877,351	877,351	-0-
Other State Programs	300,000	295,984	(4,016)
I.S.C. Operations	47,100	47,100	-0-
	<u>1,224,451</u>	<u>1,741,282</u>	<u>516,831</u>
Total State Sources	<u>1,224,451</u>	<u>1,741,282</u>	<u>516,831</u>

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Budgetary Comparison Schedules

Education Fund (Continued)

Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Federal Sources			
Title I - Reading First Part B SEA Funds	109,634	109,634	-0-
K-12 Learn and Serve	9,001	633	(8,368)
Regional Safe Schools - General State Aid	-0-	104,170	104,170
Regional Safe Schools	265,114	265,114	-0-
Title I - School Improvement & Accountability	500,000	229,266	(270,734)
Title II - Teacher Quality - Leadership Grant	200,000	110,683	(89,317)
Title V - Innovative Programs	25,000	25,000	-0-
Title IV - Community Service	162,361	5,300	(157,061)
Mathematics/Science Partnership	108,080	108,080	-0-
Total Federal Sources	<u>1,379,190</u>	<u>957,880</u>	<u>(421,310)</u>
Total Direct Revenues	<u>4,507,551</u>	<u>4,247,247</u>	<u>(260,304)</u>
On-Behalf Payments	<u>-0-</u>	<u>172,159</u>	<u>172,159</u>
Total Revenues	<u>4,507,551</u>	<u>4,419,406</u>	<u>(88,145)</u>
<u>EXPENDITURES</u>			
Instruction			
High School Programs			
Salaries	701,512	700,347	1,165
Employee Benefits	110,444	113,234	(2,790)
Purchased Services	58,893	57,145	1,748
Supplies and Materials	51,594	38,033	13,561
Capital Outlay	58,000	107,225	(49,225)
Total Instruction	<u>980,443</u>	<u>1,015,984</u>	<u>(35,541)</u>
Support Services			
Pupils			
Attendance and Social Work Services			
Salaries	184,000	181,154	2,846
Employee Benefits	30,271	29,674	597
Guidance Services			
Salaries	124,434	122,695	1,739
Employee Benefits	24,883	23,329	1,554
Purchased Services	22,000	1,253	20,747
Supplies and Materials	5,000	2,769	2,231
Total Pupils	<u>390,588</u>	<u>360,874</u>	<u>29,714</u>

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2005

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Instructional Staff			
Improvement of Instruction Services			
Salaries	37,578	47,532	(9,954)
Employee Benefits	5,041	8,237	(3,196)
Purchased Services	562,224	274,228	287,996
Supplies and Materials	55,702	88,188	(32,486)
Capital Outlay	28,267	11,280	16,987
Other Objects	5,726	5,726	-0-
Total Instructional Staff	<u>694,538</u>	<u>435,191</u>	<u>259,347</u>
General Administration			
Executive Administrative Services			
Salaries	73,376	89,536	(16,160)
Employee Benefits	11,173	15,898	(4,725)
Purchased Services	51,471	69,661	(18,190)
Supplies and Materials	4,300	4,566	(266)
Capital Outlay	7,511	16,251	(8,740)
Other Objects	79	79	-0-
Special Area Administrative Services			
Salaries	207,821	197,052	10,769
Employee Benefits	31,164	35,623	(4,459)
Purchased Services	63,450	58,046	5,404
Supplies and Materials	6,000	4,649	1,351
Capital Outlay	-0-	1,000	(1,000)
Total General Administration	<u>456,345</u>	<u>492,361</u>	<u>(36,016)</u>
School Administration			
Other Support Services			
Salaries	304,000	303,967	33
Employee Benefits	38,999	37,928	1,071
Total School Administration	<u>342,999</u>	<u>341,895</u>	<u>1,104</u>
Business			
Direction of Business Support Services			
Purchased Services	-0-	8,223	(8,223)
Fiscal Services			
Salaries	33,603	29,603	4,000
Employee Benefits	6,496	3,939	2,557
Purchased Services	29,083	63,196	(34,113)
Supplies and Materials	100	-0-	100
Operations and Maintenance of Plant			
Purchased Services	491,777	524,101	(32,324)
Supplies and Materials	100	-0-	100
Pupil Transportation Services			
Purchased Services	12,440	(596)	13,036
Total Business	<u>573,599</u>	<u>628,466</u>	<u>(54,867)</u>
Central			
Planning, Research and Development			
Purchased Services	333,755	244,037	89,718
Supplies and Materials	6,935	3,921	3,014
Data Processing			
Purchased Services	19,575	6,359	13,216
Total Central	<u>360,265</u>	<u>254,317</u>	<u>105,948</u>

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>			
Other Support Services			
Salaries	100,990	3,974	97,016
Employee Benefits	20,342	(1,510)	21,852
Purchased Services	35,000	2,588	32,412
	<u>156,332</u>	<u>5,052</u>	<u>151,280</u>
Total Other Support Services			
Total Support Services	<u>2,974,666</u>	<u>2,518,156</u>	<u>456,510</u>
Community Services			
Purchased Services	51,838	471	51,367
Supplies and Materials	5,441	390	5,051
	<u>57,279</u>	<u>861</u>	<u>56,418</u>
Total Community Services			
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	495,163	406,882	88,281
	<u>4,507,551</u>	<u>3,941,883</u>	<u>565,668</u>
Total Direct Expenditures			
On-behalf Payments	<u>-0-</u>	<u>172,159</u>	<u>(172,159)</u>
Total Expenditures	<u>4,507,551</u>	<u>4,114,042</u>	<u>393,509</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ -0-</u>	<u>305,364</u>	<u>\$ 305,364</u>
Fund Balance, Beginning of Year		<u>1,725,360</u>	
Fund Balance, End of Year		<u>\$ 2,030,724</u>	

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2005

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures	
			7/01/03 - 6/30/04 (C)	7/01/04 - 06/30/05 (D)
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title I - School Improvement & Accountability	84.010A	05-4331-SS		\$ 229,266
Title II - Teacher Quality - Leadership Grant	84.367A	05-4935-SS		110,683
Title V - Innovative Programs - SEA Programs	84.298A	05-4105-SS		25,000
Title I - Reading First Part B SEA Funds	84.357A	05-4337-02		109,634
Mathematics/Science Partnerships	84.366B	05-4936-00		108,080
Title IV - Community Service	84.184C	04-4420-00	\$ 132,361	5,300
U.S. Dept. of Health and Human Services passed through Illinois State Board of Education (ISBE):				
Regional Safe Schools Program TANF (M)	93.558	05-3696-00		265,114
Regional Safe Schools Program - General State Aid TANF (M)	93.558	05-3001-93		104,170
				369,284
U.S. Dept. of Health and Human Services passed through Des Plaines Community Consolidated District #62				
K-12 Learn & Serve	94.004	03-4910-00	8,368	633
Total Expenditures of Federal Awards			\$ 140,729	\$ 957,880

(M) - Program was audited as a major program as defined by ISBE criteria.

The accompanying notes are an integral part of this schedule.

NORTH COOK INTERMEDIATE SERVICE CENTER NO. 1
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of North Cook Intermediate Service Center No. 1 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

-NONE-

NOTE 3 – DESCRIPTION OF MAJOR FEDERAL PROGRAM

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

Regional Safe Schools Program (first quarter of fiscal year's revenues and expenses): This program is an alternative education program serving students in North Cook Intermediate Service Center No. 1 that have been suspended at least twice for a period of 4 – 10 days for gross misconduct, recommended for expulsion by member school district administration to the local school board, arrested by police and/or remanded to the juvenile or criminal courts for acts related to school activities, or involved in misconduct which demonstrates a long term pattern which is severe, repetitive and/or cumulative and for which the District has exhausted its resources in unsuccessful remediation attempts.

Regional Safe Schools Program – General State Aid (first quarter of fiscal year's revenues and expenses): General State Aid funds for the above referenced program.

NOTE 4 – NON-CASH ASSISTANCE

-NONE-

NOTE 5 – AMOUNT OF INSURANCE

-NONE-

NOTE 6 – LOANS OR LOAN GUARANTEES OUTSTANDING

-NONE-