

STATE OF ILLINOIS
INTERMEDIATE SERVICE CENTER NO. 2
FINANCIAL AUDIT
(IN ACCORDANCE WITH THE SINGLE AUDIT ACT
AND OMB CIRCULAR A-133)
FOR THE YEAR ENDED JUNE 30, 2005

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

INTERMEDIATE SERVICE CENTER NO. 2
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OFFICIALS

INTERMEDIATE SERVICE CENTER NO. 2

Executive Director	(July 1, 2005 to present) (July 1, 2004 to June 30, 2005)	Ms. Kay Poyner Brown Ms. Gretchen Alexander
Administrative Assistant	(Current and during audit period)	Ms. Mary Ann Coull
Financial Officer	(Current and during audit period)	Ms. Linda Rogers
Business Manager	(Current)	Ms. Meg Dolasinski, CPA

Offices are located at:

928 Barnsdale Road
LaGrange Park, IL 60526

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	-0-	-N/A-

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Description</u>
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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 17, 2005. Attending was Kay Poyner Brown, Director. 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 Intermediate Service Center #2 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 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 Intermediate Service Center No. 2, as of and for the year ended June 30, 2005, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2005, 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 June 13, 2006 on our consideration of the Intermediate Service Center No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule for the Education Fund on pages 11 through 14 and pages 33 through 36 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 Intermediate Service Center No. 2's basic financial statements. The combining 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 combining 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.

Sidney, Collier, Von Osdol & Co., Ltd.

Dixon, Illinois
June 13, 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 the Intermediate Service Center No. 2, as of and for the year ended June 30, 2005, which collectively comprise the Intermediate Service Center No. 2's basic financial statements and have issued our report thereon dated June 13, 2006. 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 Intermediate Service Center No. 2'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 over financial reporting 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 Intermediate Service Center No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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, Callihan, Van Osdel & Co., Ltd.

Dixon, Illinois
June 13, 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 the Intermediate Service Center No. 2 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. The Intermediate Service Center No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express an opinion on the Intermediate Service Center No. 2's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Intermediate Service Center No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Intermediate Service Center No. 2's compliance with those requirements.

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the 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 the Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Intermediate Service Center No. 2'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.

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.

Lodge, Callahan, Van Osdel } Co., Ltd.

Dixon, Illinois
June 13, 2006

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings - None

1. *Criteria/Specific Requirement:*

2. *Condition:*

3. *Questioned Cost:*

4. *Context:*

5. *Effect:*

6. *Cause:*

7. *Recommendation:*

8. *Management's Response:*

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings - None

INTERMEDIATE SERVICE CENTER NO. 2
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

-N/A-

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis
Year Ended June 30, 2005

As management of Intermediate Service Center No. 2, we offer the readers of the financial statements this narrative overview and analysis of the financial activities of Intermediate Service Center No. 2 for the year ended June 30, 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 and included for this reporting period.

MD&A is provided at the beginning of the report to provide an overview of Intermediate Service Center No. 2's financial position at June 30, 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 Auditors Reports, required supplementary information which includes the MD&A (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of Intermediate Service Center No. 2: 1) Government-wide financial statements and 2) fund financial statements.

Government – Wide Financial Statements

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

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

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

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

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

Intermediate Service Center No. 2 maintains 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 Intermediate Service Center No. 2. More detail of the individual revenues and expenditures for this fund is presented in the supplementary section of this report.

Intermediate Service Center No. 2 is not legally required to adopt a budget, but an annual budget is reviewed for the Education Fund. Illinois State Board of Education, a granting agency, requires the Intermediate Service Center No. 2 to adopt budgets for certain program revenues. A budgetary comparison schedule has been provided as supplementary information for the 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	\$ 954,181	\$ 827,358
Capital Assets	<u>142,868</u>	<u>192,702</u>
Total Assets	<u>1,097,049</u>	<u>1,020,060</u>
Liabilities:		
Current Liabilities	646,960	784,372
Non-current Liabilities	<u>-0-</u>	<u>2,553</u>
Total Liabilities	<u>646,960</u>	<u>786,925</u>
Net Assets:		
Investments in capital assets, net of debt	142,868	190,149
Unrestricted	<u>307,221</u>	<u>42,986</u>
Total Net Assets	<u>\$ 450,089</u>	<u>\$ 233,135</u>

Current assets consist of cash and accounts receivable – governmental claims.

As of June 30, 2005, Intermediate Service Center No. 2 had no outstanding long-term debt.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2005

Intermediate Service Center No. 2'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 Year Ending:

	June 30, 2005	June 30, 2004
Revenues received:		
Program:		
Operating grants and contributions	\$3,131,704	\$2,515,943
General:		
Local sources	1,833,661	2,371,776
On-behalf payments	112,705	131,567
Interest	94,575	16,720
Miscellaneous	184,216	108,526
Total revenue received	5,356,861	5,144,532
Expenditures disbursed:		
Instructional services:		
Instruction	269,627	275,828
Supporting Services	4,496,992	4,027,435
Community Services	7,759	3,969
Nonprogrammed Changes	252,814	442,289
Debt Service	10	1,854
Administrative services:		
On-behalf payments	112,705	131,567
Total expenditures disbursed	5,139,907	4,882,942
Change in net assets	216,954	261,590
Beginning net assets	233,135	(28,455)
Ending net assets	\$ 450,089	\$ 233,135

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

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

As shown in the table above, the cost of governmental activities for this year was \$5,139,907. Federal and State grants financed almost two thirds of this or \$3,131,704. Local sources consisting of primarily tuition was the next largest contributor with \$1,833,661.

Capital assets

During the year ended June 30, 2005, the Intermediate Service Center No. 2 purchased seven new computers at a cost of \$8,918 during the year and included them in capital assets.

INTERMEDIATE SERVICE CENTER NO. 2
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 \$216,954, due to the fact that revenue increased at a higher rate over expenses from a year ago. Total revenue for fiscal year ended June 30, 2004 was \$5,144,532 and increased by \$212,329 to \$5,356,861 for fiscal year ended June 30, 2005, (primarily due to increased state revenue for fiscal year ended June 30, 2005). Expenses increased by \$256,965 from \$4,882,942 in fiscal year ended June 30, 2004, to \$5,139,907 in fiscal year ended June 30, 2005. This trend 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, 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 Intermediate Service Center No. 2's citizens, taxpayers, clients and other constituents with a general overview of its finances and to demonstrate accountability for the money it receives. If the reader has questions concerning this report or need additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 928 Barnsdale Road, LaGrange Park, IL 60526.

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Net Assets

June 30, 2005

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash in custody of Center	\$ 4,761
Cash in custody of Township School Treasurer	908,081
Due from other Governments	41,339
	<hr/>
Total current assets	954,181
	<hr/>
Noncurrent assets:	
Capital Assets, being depreciated, net	142,868
	<hr/>
Total noncurrent assets	142,868
	<hr/>
Total assets	1,097,049
	<hr/>
 <u>LIABILITIES</u> 	
Current Liabilities:	
Due to other governments	73,317
Accounts payable	166,202
Accrued payroll liabilities	21,127
Deferred revenue	386,314
	<hr/>
Total current liabilities	646,960
	<hr/>
Total Liabilities	646,960
	<hr/>
 <u>NET ASSETS</u> 	
Invested capital assets, net of related debt	142,868
	<hr/>
Unrestricted	307,221
	<hr/>
Total net assets	\$ 450,089
	<hr/> <hr/>

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

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Activities Year Ended June 30, 2005

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Assets</u> Primary Government Governmental Activities
FUNCTIONS/PROGRAMS			
Primary government:			
Governmental activities:			
Instructional Services:			
Instruction	\$ 269,627	\$ 529,205	\$ 259,578
Supporting Services	4,496,992	2,477,123	(2,019,869)
Community Services	7,759	3,454	(4,305)
Nonprogrammed Charges	252,814	121,922	(130,892)
Debt Service	10	-0-	(10)
Administrative:			
On-behalf payments	112,705	-0-	(112,705)
Total governmental activities	<u>\$ 5,139,907</u>	<u>\$ 3,131,704</u>	<u>(2,008,203)</u>
General revenues:			
Local sources			1,833,661
On-behalf payments			112,705
Interest			94,575
Miscellaneous			184,216
Total general revenues, special and extraordinary items, and transfers			<u>2,225,157</u>
Change in net assets			216,954
Net assets - beginning			<u>233,135</u>
Net assets - ending			<u>\$ 450,089</u>

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

INTERMEDIATE SERVICE CENTER NO. 2

Balance Sheet Governmental Funds June 30, 2005

	<u>Governmental Fund Type Education Fund</u>
<u>ASSETS</u>	
Cash in custody of Center	\$ 4,761
Cash in custody Township School Treasurer	908,081
Due from other governments	<u>41,339</u>
Total assets	<u>\$ 954,181</u>
<u>LIABILITIES</u>	
Due to other governments	\$ 73,317
Accounts payable	166,202
Accrued payroll liabilities	21,127
Deferred revenue	<u>386,314</u>
Total liabilities	<u>646,960</u>
<u>FUND BALANCES</u>	
Fund balance - unrestricted	<u>307,221</u>
Total fund balance	<u>307,221</u>
Total liabilities and fund balance	<u>\$ 954,181</u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005

Total fund balance - governmental fund	\$ 307,221
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>142,868</u>
Net assets of governmental activities	<u><u>\$ 450,089</u></u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Statement of Revenues, Expenditures and Changes in Fund Balance
Education Fund
Year Ended June 30, 2005

	Governmental Fund Type Education Fund
<u>REVENUES</u>	
Local Sources	\$ 2,112,452
State Sources	1,258,770
Federal Sources	1,872,934
	5,244,156
Total Direct Revenues	5,244,156
On-behalf Payments	112,705
	112,705
Total Revenues	5,356,861
<u>EXPENDITURES</u>	
Current:	
Instruction	269,627
Support Services	4,447,158
Community Services	7,759
Nonprogrammed Charges	252,814
Debt Service	2,563
	4,979,921
Total Direct Expenditures	4,979,921
On-behalf Payments	112,705
	112,705
Total Expenditures	5,092,626
Net Change in Fund Balance	264,235
Fund Balance, July 1, 2004	42,986
	42,986
Fund Balance, June 30, 2005	\$ 307,221

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
Governmental Funds
Year Ended June 30, 2005

Net change in fund balances \$ 264,235

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	\$ 8,918	
Depreciation expense	<u>(58,752)</u>	(49,834)

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

Issuance of long-term debt	-0-	
Principal payments	<u>2,553</u>	<u>2,553</u>

Change in net assets of governmental activities \$ 216,954

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

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

A. Reporting Entity:

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

A. Reporting Entity (Continued):

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

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

B. 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 Government"; 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 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, 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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Invested in Capital Assets – represents the 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.

D. Measurement Focus and Basis of Presentation:

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

Governmental Fund Type

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

Education Fund

The Education Fund is the primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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 IV – Safe and Drug Free Schools – Formula, Title I – Reading First Part B SEA Funds, Title IV – Community Service, Regional Safe Schools – General State Aid, Title I – School Improvement and Accountability, Regional Safe Schools Program, Learn and Serve America, Title V – Innovative Programs – SEA Projects, and Mathematics/Science Partnership.

State grants that are accounted for and included in the Education Fund are as follows: Regional Safe Schools Program, Intermediate Service Center Operations, General State Aid-Sec. 18-8, Reading Improvement Block, and Other State Revenues.

E. Basis of Accounting:

The government wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all the eligibility requirements imposed by the provider have been met.

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

F. Budgets and Budgetary Accounting:

Although the operating budget was reviewed, Intermediate Service Center No. 2 did not formally adopt a budget for the year ended June 30, 2005 and is not legally required to do so. However, the Illinois State Board of Education requires budgets for certain State and Federal programs. These budgets were used to prepare the Budgetary Comparison Schedule of the Education Fund.

Federal grants administered that have budgets are as follows: Title II – Teacher Quality – Leadership Grant, Title IV - Safe and Drug Free Schools – Formula, Title I – School Improvement and Accountability, Title I – Reading First Part B SEA Funds, Title IV – Community Service, Regional Safe Schools – General State Aid (first quarter of fiscal year’s revenues and expenses), Regional Safe Schools Program (first quarter of fiscal year’s revenues and expenses), Learn and Serve America, Title V – Innovative Programs – SEA Projects, and Mathematics/Science Partnership.

INTERMEDIATE SERVICE CENTER NO. 2
Notes To Basic Financial Statements
June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Budgets and Budgetary Accounting (Continued):

State grants administered that have budgets are as follows Intermediate Service Center Operations, Regional Safe Schools Program (last three quarters of fiscal year's revenues and expenses), Regional Safe Schools-General State Aid (last three quarters of the fiscal year's revenues and expenses), Reading Improvement Block, and Other State Revenues.

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

The Lyons Township School Treasurer (Treasurer), a separate legal governmental agency, serves as the Treasurer as prescribed by the Illinois School Code and the Illinois Compiled Statutes. In addition to Intermediate Service Center No. 2, the Treasurer serves other districts. Cash from all districts is combined by the Treasurer and excess cash is invested as authorized by law. Because there is no specific identification of investments by individual districts, interest earned on investments is allocated monthly to the various districts based upon their average monthly cash and investment balances. The Treasurer is authorized by state statutes and local ordinances, to invest on behalf of the district in obligations of: U.S. Treasury agencies backed by the full faith and credit of the U.S. Government, certificates of deposit issued by commercial banks and savings and loan associations, and commercial paper rated within the three highest classifications by at least two standard rating services. Because all cash and investments are pooled by a separate legal governmental agency (Treasurer) categorization by risk category is not determinable. Further information regarding collateralization of investments and insurance is available from the Treasurer's financial statements. During the year \$94,575 in interest was credited to Intermediate Service Center No. 2.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits in custody of Center	<u>\$ 4,761</u>	<u>\$ 10,335</u>
Equity in pooled cash and investments of Lyons Township School Treasurer	<u>\$908,081</u>	<u>\$908,081</u>

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

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Credit Risk. State law limits investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized rating organizations (NRSRO's). The Treasurer's investment policy further minimizes credit risk by pre-qualifying the financial institutions, brokers, dealers, intermediaries, and advisors with which the Treasurer does business. Allowable investments include the following:

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

As of June 30, 2005, all the Treasurer's investments exposed to credit risk had an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's.

H. Capital Assets:

Capital assets used in governmental fund types are recorded in the government-wide financial statements at a cost or estimated historical cost if purchased or constructed. 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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

H. Capital Assets (Continued):

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

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Cost:				
Equipment	<u>\$638,945</u>	<u>\$ 8,918</u>	<u>\$-0-</u>	<u>\$647,863</u>
Accumulated Depreciation:				
Equipment	<u>\$446,243</u>	<u>\$ 58,752</u>	<u>\$-0-</u>	<u>\$504,995</u>
Total Capital Assets, Net:				
Equipment	<u>\$192,702</u>	<u>\$(49,834)</u>	<u>\$-0-</u>	<u>\$142,868</u>

Depreciation expense was charged to governmental functions as follows:

Supporting Services	<u>\$ 58,752</u>
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2. RENTAL LEASE AGREEMENT:

Intermediate Service Center No. 2 has leased approximately 9,000 square feet of space at the Forest Road East School District for use as its Administrative Office at \$8.60 per square foot payable in equal quarterly installments. This agreement is effective for the period of July 1, 2004 through June 30, 2005.

Comprehensive general liability insurance is maintained at all times during the term of the lease in an amount not less than \$1,000,000.

3. CAPITAL LEASES:

Lease agreements have been entered into for financing the acquisition of various office equipment. These lease agreements qualified as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in capital assets. As of December 31, 2004, both lease agreements have been fulfilled.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

4. RISK MANAGEMENT:

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

5. RETIREMENT FUND COMMITMENTS:

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

Intermediate Service Center No. 2 participates in the Teacher's 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 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 TRS member contribution rate through June 30, 2005 was 9 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 part of this retirement plan. The member THIS Fund contribution was 0.50 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 TRS-covered employees.

- *On-behalf contributions.* The State of Illinois makes employer pension contributions on behalf of Intermediate Service Center No. 2. For the year ended June 30, 2005, the State of Illinois contributions were based on 11.76 percent of creditable earnings, and the district recognized revenue and expenditures of \$112,705 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 (\$131,567) and 13.01 percent (\$130,864), respectively.

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

INTERMEDIATE SERVICE CENTER NO. 2
Notes To Basic Financial Statements
June 30, 2005

5. RETIREMENT FUND COMMITMENTS (Continued):

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

- *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 years ending June 30, 2005 and June 30, 2004 were \$5,559 and \$5,458, respectively. For the year ended June 30, 2003, part of the employer's 2.2 formula contribution (0.58 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 is submitted to TRS. Contributions for the year ended June 30, 2003 were \$163.
- *Federal and trust fund contributions.* When TRS members are paid from federal and trust funds administered by the district, there is a statutory requirement to pay an employer pension 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 \$441,159 were paid from federal and trust funds that required employer contributions of \$46,322. For the years ended June 30, 2004 and June 30, 2003, required center contributions were \$32,093 and \$18,883, respectively.
- *Early Retirement Option.* Intermediate Service Center No. 2 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. 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 District paid \$ -0- and \$ -0-, respectively.

Changes

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 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.
- *State/federal contribution.*
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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

5. RETIREMENT FUND COMMITMENTS (Continued):

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

- *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:
 - 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.
 - 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.
 - 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.
 - 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's benefits, and descriptions of member, employer and state funding requirements can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 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, Illinois 62794-9253. The most current report is also available on the TRS web site at www.trs.state.il.us.

B. Illinois Municipal Retirement Fund:

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

5. RETIREMENT FUND COMMITMENTS (Continued):

B. Illinois Municipal Retirement Fund (Continued):

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

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

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

However, during the year, Intermediate Service Center No. 2 paid to the School Districts, as their share of the cost for participating employees, the sum of \$75,596.

C. Social Security:

Employees not qualifying for coverage under the Illinois Teacher's Retirement System or the Illinois Municipal Retirement Fund are considered "non-participating employees". These employees and those qualifying for coverage under the Illinois Municipal Retirement Fund are covered under Social Security. Intermediate Service Center No. 2 paid \$84,728, the total required contribution for the current fiscal year.

6. DUE TO/FROM OTHER GOVERNMENTS:

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

Due From Other Governments:

Illinois State Board of Education	\$18,772
Illinois State Board of Education- Emotional and Behavioral Disabilities Partnership/ Positive Behavior Interventions and Support	<u>22,567</u>
	<u>\$41,339</u>

Due To Other Governments:

Illinois State Board of Education – Emotional and Behavioral Disabilities Partnership/ Positive Behavior Interventions and Support	<u>\$73,317</u>
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INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2005

7. 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, 2005:

Title I – School Improvement and Accountability	\$164,340
Title I – Reading First Part B SEA Funds	48,374
Title II – Teacher Quality – Leadership Grant	107,545
Other State Programs	63,066
Title IV – Safe and Drug Free Schools - Formula	<u>2,989</u>
	<u>\$386,314</u>

8. 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.

SUPPLEMENTAL INFORMATION

INTERMEDIATE SERVICE CENTER NO. 2

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-	\$ 94,575	\$ 94,575
Services Provided Other LEA's	930,000	672,130	(257,870)
EDB/PBIS Network	-0-	1,161,531	1,161,531
Other	146,032	184,216	38,184
Total Local Sources	<u>1,076,032</u>	<u>2,112,452</u>	<u>1,036,420</u>
State Sources			
Regional Safe Schools Program	530,411	530,411	-0-
Regional Safe Schools - General State Aid	493,422	434,845	(58,577)
Reading Improvement Block Grant	14,200	14,200	-0-
Other State Revenues	260,000	232,214	(27,786)
I.S.C. Operations	47,100	47,100	-0-
Total State Sources	<u>1,345,133</u>	<u>1,258,770</u>	<u>(86,363)</u>
Federal Sources			
Title V - Innovative Programs - SEA Projects	50,000	50,000	-0-
Title I - School Improvement & Accountability	1,377,546	984,676	(392,870)
Title IV - Safe and Drug Free Schools - Formula	18,343	15,354	(2,989)
Title IV - Community Service	199,849	105,266	(94,583)
Title II - Teacher Quality - Leadership Grant	200,268	73,347	(126,921)
Title I - Reading First Part B SEA Funds	321,348	269,987	(51,361)
Mathematics/Science Partnership	177,905	89,069	(88,836)
Regional Safe Schools Program	164,717	164,717	-0-
Regional Safe School - General State Aid	98,684	98,684	-0-
Learn and Serve America	23,305	21,834	(1,471)
Total Federal Sources	<u>2,631,965</u>	<u>1,872,934</u>	<u>(759,031)</u>
Total Direct Revenues	<u>5,053,130</u>	<u>5,244,156</u>	<u>191,026</u>
On-behalf Payments	<u>-0-</u>	<u>112,705</u>	<u>112,705</u>
Total Revenues	<u>5,053,130</u>	<u>5,356,861</u>	<u>303,731</u>

INTERMEDIATE SERVICE CENTER NO. 2

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>			
Current Operating			
Instruction			
Salaries	218,505	213,282	5,223
Employee Benefits	33,568	24,230	9,338
Purchased Services	17,726	6,269	11,457
Supplies and Materials	12,000	25,846	(13,846)
Total Instruction	<u>281,799</u>	<u>269,627</u>	<u>12,172</u>
Support Services			
Pupils			
Attendance and Social Work Services			
Salaries	45,229	49,728	(4,499)
Employee Benefits	9,045	9,489	(444)
Purchased Services	-0-	1,677	(1,677)
Guidance Services			
Salaries	-0-	(17,500)	17,500
Employee Benefits	-0-	(9,733)	9,733
Purchased Services	-0-	(1,250)	1,250
Supplies and Materials	-0-	23,932	(23,932)
Total Pupils	<u>54,274</u>	<u>56,343</u>	<u>(2,069)</u>
Instructional Staff			
Improvement of Instruction Services			
Salaries	830,907	1,158,502	(327,595)
Employee Benefits	185,835	243,301	(57,466)
Purchased Services	1,614,833	1,405,036	209,797
Supplies and Materials	383,858	341,081	42,777
Capital Outlay	27,500	55,044	(27,544)
Other Objects	8,000	32,007	(24,007)
Transfers	32,000	-0-	32,000
Total Instructional Staff	<u>3,082,933</u>	<u>3,234,971</u>	<u>(152,038)</u>

INTERMEDIATE SERVICE CENTER NO. 2

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>
General Administration			
Board of Education Services			
Salaries	44,395	44,222	173
Employee Benefits	11,084	11,723	(639)
Purchased Services	12,655	24,031	(11,376)
Special Area Administrative Services			
Salaries	160,657	230,045	(69,388)
Employee Benefits	39,327	45,633	(6,306)
Purchased Services	2,100	18,474	(16,374)
Supplies and Materials	-0-	5,705	(5,705)
Capital Outlay	8,000	19,957	(11,957)
Office of the Principal Services			
Salaries	172,120	184,219	(12,099)
Employee Benefits	34,424	15,897	18,527
Total General Administration	<u>484,762</u>	<u>599,906</u>	<u>(115,144)</u>
Business			
Fiscal Services			
Salaries	115,791	119,053	(3,262)
Employee Benefits	18,383	16,823	1,560
Supplies and Materials	-0-	181	(181)
Operation and Maintenance of Plant Services			
Purchased Services	-0-	11,289	(11,289)
Supplies and Materials	18,163	14,459	3,704
Pupil Transportation Services			
Purchased Services	3,600	(1,956)	5,556
Total Business	<u>155,937</u>	<u>159,849</u>	<u>(3,912)</u>
Central			
Planning, Research, Development and Evaluation Services			
Salaries	-0-	37,000	(37,000)
Employee Benefits	-0-	3,894	(3,894)
Purchased Services	38,380	50,677	(12,297)
Staff Services			
Salaries	-0-	123,882	(123,882)
Employee Benefits	-0-	34,362	(34,362)
Purchased Services	5,300	78,071	(72,771)
Supplies and Materials	12,101	(10,372)	22,473
Data Processing			
Purchased Services	10,000	-0-	10,000
Total Central	<u>65,781</u>	<u>317,514</u>	<u>(251,733)</u>

INTERMEDIATE SERVICE CENTER NO. 2
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			
Employee Benefits	-0-	36	(36)
Purchased Services	-0-	78,539	(78,539)
Total Other Support Services	<u>-0-</u>	<u>78,575</u>	<u>(78,575)</u>
Total Support Services	<u>3,843,687</u>	<u>4,447,158</u>	<u>(603,471)</u>
Community Services			
Purchased Services	4,800	6,800	(2,000)
Supplies and Materials	800	959	(159)
Total Community Services	<u>5,600</u>	<u>7,759</u>	<u>(2,159)</u>
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Salaries	-0-	-0-	-0-
Purchased Services	1,500	1,117	383
Supplies and Materials	-0-	-0-	-0-
Transfers	156,559	251,697	(95,138)
Total Nonprogrammed Charges	<u>158,059</u>	<u>252,814</u>	<u>(94,755)</u>
Debt Service			
Interest expense	-0-	10	(10)
Principal	-0-	2,553	(2,553)
Total Other Objects	<u>-0-</u>	<u>2,563</u>	<u>(2,563)</u>
Total Direct Expenditures	<u>4,289,145</u>	<u>4,979,921</u>	<u>(690,776)</u>
On-behalf Payments	-0-	112,705	(112,705)
Total Expenditures	<u>4,289,145</u>	<u>5,092,626</u>	<u>(803,481)</u>
Excess of Revenues Over Expenditures	<u>\$ 763,985</u>	264,235	<u>\$ (499,750)</u>
Fund Balance, July 1, 2004		<u>42,986</u>	
Fund Balance, June 30, 2005		<u>\$ 307,221</u>	

FEDERAL COMPLIANCE SECTION

INTERMEDIATE SERVICE CENTER NO. 2

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 V - Innovative Programs	84.298A	05-4105-SS		50,000
Title I - School Improvement & Accountability (M)	84.010A	04-4331-SS	141,364	11,090
Title I - School Improvement & Accountability (M)	84.010A	05-4331-SS		973,586
			141,364	984,676
Title IV - Safe and Drug Free Schools - Formula	84.186A	05-4400-00		15,354
Title IV - Community Service	84.184C	04-4420-00	94,583	105,266
Title II - Teacher Quality - Leadership Grant	84.367A	04-4935-SS	29,572	3,160
Title II - Teacher Quality - Leadership Grant	84.367A	05-4935-SS		70,187
			29,572	73,347
Title I - Reading First Part B SEA Funds	84.357A	05-4337-04		38,072
Title I - Reading First Part B SEA Funds	84.357A	05-4337-02		60,147
Title I - Reading First Part B SEA Funds	84.357A	05-4337-01		143,181
Title I - Reading First Part B SEA Funds	84.357A	05-4337-00		28,587
				269,987
Mathematics/Science Partnerships	84.366B	04-4936-00	88,836	30,414
Mathematics/Science Partnerships	84.366B	05-4936-00		58,655
			88,836	89,069
U.S. Dept. of Health and Human Services passed through Illinois State Board of Education (ISBE):				
Regional Safe Schools Program TANF	93.558	05-3696-00		164,717
Regional Safe Schools Program- General State Aid TANF	93.558	05-3001-93		98,684
				263,401
Learn and Serve America	94.004	04-4910-00	3,247	3,062
Learn and Serve America	94.004	05-4910-00		18,772
			3,247	21,834
Total Expenditures of Federal Awards			\$ 357,602	\$ 1,872,934

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

The accompanying notes are an integral part of this schedule.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

1. SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

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

B. Relationship to Basic Financial Statements:

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

2. SUBRECIPIENTS:

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

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

3. DESCRIPTION OF MAJOR PROGRAM:

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

Title I – School Improvement & Accountability:

This program is part of the Center’s System of Support Coordination and Services Plan. The program is part of a strategy to nurture and assist low-performing schools in West Cook County. Services initially are targeted in 32 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
- Provide the Suburban Cook County Regional Office of Education with school improvement consultants to evaluate various sections of the school improvement plan

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards (Continued)
June 30, 2005

4. NONCASH ASSISTANCE:

-NONE-

5. LOAN AND LOAN GUARANTEES OUTSTANDING:

-NONE-

6. INSURANCE:

-NONE-