

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, 2014

Performed as Special Assistant Auditors
For the Office of the Auditor General

Intermediate Service Center No. 2

For the year ended June 30, 2014

Table of Contents

Officials	1
Compliance Report Summary	2 - 3
Financial Statement Report Summary	4
Independent Auditors' Report	5 - 7
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	8 - 9
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by OMB Circular A-133	10 - 12
Schedule of Findings and Questioned Costs	13a - 13k
Corrective Action Plan for Current Year Audit Findings	14a - 14e
Summary Schedule of Prior Audit Findings	15
Basic Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Balance Sheet - Governmental Funds	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities - Governmental Funds	21
Notes to Basic Financial Statements	22 - 41
Required Supplementary Information	
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance - General Fund	42 - 44

Intermediate Service Center No. 2

For the year ended June 30, 2014

Table of Contents

Combining Schedule of Revenues, Expenditures, Changes in Fund Balance and Budgetary Comparison Schedule – Education Fund	45 - 47
Schedule of Revenues, Expenditures and Changes in Fund Balance – Institute Fund	48
Federal Compliance Section	
Schedule of Expenditures of Federal Awards	49
Notes to the Schedule of Expenditures of Federal Awards	50 - 51

Intermediate Service Center No. 2

For the year ended June 30, 2014

Officials

Executive Director	(July 1, 2014 to Current)	Dr. Mark Klaisner
Executive Director	(During audit period)	Ms. Kay Poyner Brown
Business & Financial Analyst	(Current and during audit period)	Ms. Linda Rogers

Offices are located at:

4413 Roosevelt Road
Suite 104
Hillside, IL 60162

Intermediate Service Center No. 2

For the year ended June 30, 2014

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.

Auditor's Reports

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

Summary of Audit Findings

Number of	This Audit	Prior Audit
Audit findings	5	2
Repeated audit findings	1	2
Prior recommendations implemented or not repeated	1	2

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

Summary of Findings and Questioned Costs

Item No.	Page	Description	Finding Type
<i>Findings (Government Auditing Standards)</i>			
2014-001	13b	Inadequate Internal Control Procedures	Significant Deficiency
2014-002	13d	Controls over Financial Statement Preparation	Material Weakness
2014-003	13f	Unrecorded Liability	Material Weakness
2014-004	13h	Inadequate controls over Procurement-Card Transactions	Material Weakness
<i>Findings and Questioned Costs (Federal Compliance)</i>			
2014-001	13i	Inadequate Internal Control Procedures	Significant Deficiency
2014-005	13j	Noncompliance with Grant Requirements	Significant Deficiency and Noncompliance
<i>Prior Findings Not Repeated (Government Auditing Standards)</i>			
2013-002	15	Use of Designated Grant Balances	Material Weakness
<i>Prior Findings Not Repeated (Federal Compliance)</i>			
None			

Intermediate Service Center No. 2

For the year ended June 30, 2014

Exit Conference

The Intermediate Service Center No. 2 opted not to have a formal exit conference during the financial audit for the year ended June 30, 2014. Throughout the audit, numerous meetings were held between auditors and Service Center officials to discuss matters contained in this audit report. Responses to the recommendations were provided by Dr. Mark Klaisner, Executive Director, on August 10, 2016.

Intermediate Service Center No. 2

For the year ended June 30, 2014

Financial Statement Report - Summary

The audit of the accompanying basic financial statements of Intermediate Service Center No. 2 was performed by Wipfli LLP.

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

Independent Auditors' Report

Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Intermediate Service Center No. 2's basic financial statements. The Budgetary Comparison Schedules and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

In our opinion, the Budgetary Comparison Schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2016 on our consideration of the Intermediate Service Center No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Intermediate Service Center No. 2's internal control over financial reporting and compliance.

Wipfli LLP

Dixon, Illinois
September 20, 2016

**Independent Auditors' Report on Internal Control Over Financial Reporting
And on Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing Standards***

Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2014-002, 2014-003 and 2014-004 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of Findings and Questioned Costs as item 2014-001 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Intermediate Service Center No. 2's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Intermediate Service Center No. 2's Responses to Findings

Intermediate Service Center No. 2's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Intermediate Service Center No. 2's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Wipfli LLP

Dixon, Illinois
September 20, 2016

Independent Auditors' Report on Compliance for Each Major Federal Program And Report on Internal Control Over Compliance Required by OMB Circular A-133

Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on Compliance for Each Major Federal Program

We have audited the Intermediate Service Center No. 2's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Intermediate Service Center No. 2's major federal programs for the year ended June 30, 2014. The Intermediate Service Center No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Intermediate Service Center No. 2's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Intermediate Service Center No. 2's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Intermediate Service Center No. 2's compliance.

Opinion on Each Major Federal Program

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-005. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

The management of Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Intermediate Service Center No. 2's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Intermediate Service Center No. 2's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2014-001 and 2014-005, that we consider to be significant deficiencies.

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

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

Wipfli LLP

Dixon, Illinois
September 20, 2016

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

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

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

Identification of major programs:

<i>CFDA Number</i>	<i>Name of Federal Program or Cluster</i>
84.360	High School Graduation Initiative
84.010A	Title I Grants to Local Educational Agencies Cluster: Title I - School Improvement & Accountability

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

Auditee qualified as low-risk auditee? yes X no

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings

Finding No. 2014-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 13-001 and 12-1)

Federal Program Name: Title I – School Improvement and Accountability

Project No.: 2014-4331-SS

CFDA No.: 84.010A

Passed Through: Illinois State Board of Education

Federal Agency: U.S. Department of Education

Federal Program Name: High School Graduation Initiative

Project No.: S360A100058-13

CFDA No.: 84.360

Federal Agency: U.S. Department of Education

Criteria/Specific Requirement

Intermediate Service Center No. 2 (Service Center) should ensure control procedures over its accounting functions are formally documented. Additionally, pay rate approvals should be provided in writing by a member of management independent of the payroll process in order to prevent errors and/or fraud prior to each pay period.

Condition

- A. Intermediate Service Center No. 2 has control procedures over its various accounting functions in place, however, they are not formally documented.
- B. Pay rate approvals could not be provided for 4 of the 13 (31%) payroll items tested for current year major programs.

Questioned Costs

N/A

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 13-001 and 12-1)

Context

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2014 were \$419,261 for Title I – School Improvement and Accountability and \$937,927 for High School Graduation Initiative.

Effect

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

Cause

- A. The Service Center did not document its control procedures in writing.
- B. The Service Center did not adhere to established internal control procedures to ensure pay rates were approved prior to running payroll.

Recommendation

- A. The Service Center should ensure control procedures for its accounting functions are documented in writing.
- B. The Service Center should comply with its established system of internal controls to ensure pay rates are properly approved before payroll is run and posted to the general ledger.

Management's Response

West 40 Intermediate Service Center will document, in written form, established internal control procedures.

Although the Executive Director approved all pay rates, West 40 did not have written documentation of such approval for 4 of the pay rates tested, 2 of those 4 were for salary rates set by the Illinois State Board of Education. Intermediate Service Center has implemented revised pay rate and payroll verification reports which the Executive Director approves before payroll is run and posted to general ledger.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-002 – Controls over Financial Statement Preparation

Criteria/Specific Requirement

The Intermediate Service Center No. 2 is required to maintain a system of controls over the preparation of financial statements in accordance with generally accepted accounting principles (GAAP). Intermediate Service Center No. 2's internal controls over GAAP financial reporting should include adequately trained personnel with the knowledge, skills, and experience to prepare GAAP based financial statements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments* (Statement), requires governments to present government-wide and fund financial statements as well as a summary reconciliation of the (a) total governmental fund balances to the net position of governmental activities in the Statement of Net Position, and (b) total change in governmental fund balances to the change in the net position of governmental activities in the Statement of Activities. In addition, the Statement requires information about the government's major and nonmajor funds in the aggregate, to be provided in the fund financial statements.

Condition

The Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Intermediate Service Center No. 2 maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Intermediate Service Center No. 2 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

During review of the Intermediate Service Center No. 2's financial information prepared by the Intermediate Service Center No. 2, the following were noted:

- The Service Center did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Service Center did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, not all entries were provided to reconcile the Intermediate Service Center No. 2's grant activity, such as posting grant receivables and unearned revenue.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-002 – Controls over Financial Statement Preparation (Continued)

Effect

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

Cause

According to Service Center officials, they did not have adequate funding to hire and/or train their accounting personnel in order to fully comply with these requirements.

Auditor's Recommendation

As part of internal control over the preparation of financial statements, the Intermediate Service Center No. 2 should implement comprehensive preparation procedures to ensure that the financial statements are complete and accurate. These procedures should be performed by a properly trained individual(s) possessing a thorough understanding of the applicable GAAP, GASB pronouncements, and knowledge of the Intermediate Service Center's activities and operations.

Management's Response

The Intermediate Service Center understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Intermediate Service Center No. 2 has taken steps to address this issue; we have hired outside sources to assist in preparation of the supporting schedules of the accounts receivable, accounts payable and deferred revenues. The ISC accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The cost of hiring and training additional staff or contracting services outweighs the benefit. If additional resources are made available through the State of Illinois, the Service Center will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-003— Unrecorded Liability

Criteria/Specific Requirement

Intermediate Service Center No. 2 is required to record liabilities in accordance with generally accepted accounting principles (GAAP).

Condition

The Intermediate Service Center No. 2 maintains a cash balance in a pooled account with the Lyon's Township Treasurer. The Lyon's Township Treasurer is a separate legal governmental agency, which serves as the Treasurer as prescribed by the Illinois School Code (105 ILCS 5/8). In addition to Intermediate Service Center No. 2, the Lyon's Township Treasurer serves other districts. Cash from all districts is combined by the Lyon's Township Treasurer and excess cash is invested as authorized by law.

Intermediate Service Center No. 2 has not established adequate internal controls over identifying and recording its liabilities for financial reporting purposes in accordance with GAAP.

During our audit, we noted the Service Center maintained a deficit cash balance on hand with the Lyon's Township Treasurer.

The deficit cash balance of \$281,042 is material to the Service Center's financial statements and the liability due to the Treasurer had not been recorded by the Service Center in order to present the financial statements in accordance with GAAP. A proposed adjusting entry was approved and accepted by Intermediate Service Center No. 2 management to appropriately record the liability in accordance with GAAP.

Effect

Failure to accurately record liabilities at year end may result in misstatement of the Service Center's financial statements.

Cause

The Service Center failed to appropriately record the liability in accordance with GAAP. Additionally, the Center is having cash flow issues. These issues are partially due to the delay in the State Comptroller's release of vouchered funds. The Service Center has been utilizing Township Treasurer's funds to the extent available.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-003 – Unrecorded Liability (Continued)

Recommendation

The Intermediate Service Center should review its current process to assess the completeness and existence of its liabilities at year end and consider procedures necessary to ensure all liabilities are accurately identified and recorded.

Management's Response

Intermediate Service Center No. 2 has taken steps to address this issue; we have hired outside sources to assist with properly identifying and recording liabilities.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings (Continued)

Finding No. 2014-004— Inadequate controls over Procurement-Card Transactions

Criteria/Specific Requirement

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

Condition

Internal controls over disbursements are not effectively designed and implemented. In 3 of 12 (25%) procurement-card (P-card) transactions tested, auditors noted the Executive Director approved her own purchases.

Effect

The Intermediate Service Center No. 2's management or its employees, in the normal course of performing their assigned functions, may not prevent or detect and correct errors, omissions, and/or fraud in a timely manner.

Cause

Internal controls over the Executive Director's P-card transactions are not effectively designed and implemented.

Recommendation

We recommend the Intermediate Service Center No. 2 implement internal control procedures to ensure an appropriate review and approval process is in place. All P-card transactions need to be reviewed by an employee other than the person incurring the expenditure.

Management's Response

The Intermediate Service Center No. 2 has instituted a policy of the Executive Director reviewing all P-card transactions, except his/her own, which are subsequently reviewed by the Assistant Director.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section III – Federal Award Findings

Significant Deficiency

**Finding No. 2014-001 – Inadequate Internal Control Procedures
(Finding details on pages 13b and 14a)**

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section III – Financial Statement Findings

Finding No. 2014-005— Noncompliance with Grant Requirements

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

Criteria/Specific Requirement

According to 34 CFR Part 80, Uniform Administration Requirements for Grants and Cooperative Agreements to State and Local Governments, the Center may only charge costs to the grant resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

It is the Center's responsibility to obtain proper supporting documentation for its grant expenditures.

Condition

The Center reported expenditures to the grant outside the grant funding period and not in accordance with 34 CFR Part 80.23. Expenditures were also reported outside the Center's appropriate fiscal year.

The Center claimed expenditures in the amount of \$23,141, for the funding period 10/01/2013 – 09/30/2014. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2012 – 09/30/2013.

Questioned Costs

N/A

Context

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2014 were \$937,927 for High School Graduation Initiative.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section III – Financial Statement Findings (Continued)

Finding No. 2014-005 – Noncompliance with Grant Requirements (Continued)

Effect

The Center did not report grant expenditures in the proper funding period which could lead to the granting agencies requesting reimbursement or adjusting the fiscal year 2015 grant amounts.

Cause

The Center incorrectly reported its grant expenditures by reporting them outside the proper grant funding period and fiscal year.

Recommendation

We recommend the Center implement procedures to track anticipated grant expenditures in order to properly record and pay them in the correct grant funding period. This includes obtaining billing invoices for services received in a timely manner.

Management's Response

The Township Treasurer provides financial services to West 40 and other districts in the region. The Township Treasurer invoiced for the services they provided on a pro-rated basis. The invoices were for services provided during the previous fiscal year and were based on the actual Township Treasurer's operating expenditures for that year. In order to report grant expenditures for services provided during the proper year, the Center has asked for the Township Treasurer to invoice West 40 in a more timely manner. This will allow West 40 to properly record and pay the invoice in the correct grant funding period.

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2014

Corrective Action Plan

Finding No. 2014-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 13-001 and 12-1)

Federal Program Name: Title I – School Improvement and Accountability

Project No.: 2014-4331-SS

CFDA No.: 84.010A

Passed Through: Illinois State Board of Education

Federal Agency: U.S. Department of Education

Federal Program Name: High School Graduation Initiative

Project No.: S360A100058-13

CFDA No.: 84.360

Federal Agency: U.S. Department of Education

Condition

- A. Intermediate Service Center No. 2 has control procedures over its various accounting functions in place, however, they are not formally documented.
- B. Pay rate approvals could not be provided for 4 of the 13 (31%) payroll items tested for current year major programs.

Corrective Action Plan

West 40 Intermediate Service Center will document, in written form, established internal control procedures.

Although the Executive Director approved all pay rates, West 40 did not have written documentation of such approval for 4 of the pay rates tested, 2 of those 4 were for salary rates set by the Illinois State Board of Education. Intermediate Service Center has implemented revised pay rate and payroll verification reports which the Executive Director approves before payroll is run and posted to general ledger.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2014

Finding No. 2014-002 – Controls over Financial Statement Preparation

Condition

The Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Intermediate Service Center No. 2 maintains its accounting records on the cash basis of accounting during the fiscal year and posts year-end accrual entries for financial statement purposes. While the Intermediate Service Center No. 2 maintains controls over the processing of most accounting transactions, there are not sufficient controls over the preparation of GAAP based financial statements for management or employees in the normal course of performing their assigned functions to prevent or detect financial statement misstatements and disclosure omissions in a timely manner.

During review of the Intermediate Service Center No. 2's financial information prepared by the Intermediate Service Center No. 2, the following were noted:

- The Service Center did not have adequate controls over the maintenance of complete records of accounts receivable, accounts payable, or unearned revenue. While the Service Center did maintain records to indicate the balances of accounts receivable, accounts payable, and unearned revenue, not all entries were provided to reconcile the Intermediate Service Center No. 2's grant activity, such as posting grant receivables and unearned revenue.
- Several adjustments were required to present financial statements in accordance with generally accepted accounting principles.

Corrective Action Plan

The Intermediate Service Center understands the nature of this finding and realizes that this circumstance is not unusual in an organization of this size. Intermediate Service Center No. 2 has taken steps to address this issue; we have hired outside sources to assist in preparation of the supporting schedules of the accounts receivable, accounts payable and deferred revenues. The ISC accepts the degree of risk associated with this condition because the added expense of seeking additional expertise to prepare and/or review financial statements would take away from the funds available to provide educational services to students and teachers. The cost of hiring and training additional staff or contracting services outweighs the benefit. If additional resources are made available through the State of Illinois, the Service Center will consider seeking the services of an accountant to review the financial statements and related disclosures for completeness and accuracy.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2014

Finding No. 2014-003— Unrecorded Liability

Condition

The Intermediate Service Center No. 2 maintains a cash balance in a pooled account with the Lyon's Township Treasurer. The Lyon's Township Treasurer is a separate legal governmental agency, which serves as the Treasurer as prescribed by the Illinois School Code (105 ILCS 5/8). In addition to Intermediate Service Center No. 2, the Lyon's Township Treasurer serves other districts. Cash from all districts is combined by the Lyon's Township Treasurer and excess cash is invested as authorized by law.

Intermediate Service Center No. 2 has not established adequate internal controls over identifying and recording its liabilities for financial reporting purposes in accordance with GAAP.

During our audit, we noted the Service Center maintained a deficit cash balance on hand with the Lyon's Township Treasurer.

The deficit cash balance of \$281,042 is material to the Service Center's financial statements and the liability due to the Treasurer had not been recorded by the Service Center in order to present the financial statements in accordance with GAAP. A proposed adjusting entry was approved and accepted by Intermediate Service Center No. 2 management to appropriately record the liability in accordance with GAAP.

Corrective Action Plan

Intermediate Service Center No. 2 has taken steps to address this issue; we have hired outside sources to assist with properly identifying and recording liabilities.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2014

Finding No. 2014-004— Inadequate controls over Procurement-Card Transactions

Condition

Internal controls over disbursements are not effectively designed and implemented. In 3 of 12 (25%) procurement-card (P-card) transactions tested, auditors noted the Executive Director approved her own purchases.

Corrective Action Plan

The Intermediate Service Center No. 2 has instituted a policy of the Executive Director reviewing all P-card transactions, except his/her own, which are subsequently reviewed by the Assistant Director.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2014

Finding No. 2014-005— Noncompliance with Grant Requirements

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

Condition

The Center reported expenditures to the grant outside the grant funding period and not in accordance with 34 CFR Part 80.23. Expenditures were also reported outside the Center's appropriate fiscal year.

The Center claimed expenditures in the amount of \$23,141, for the funding period 10/01/2013 – 09/30/2014. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2012 – 09/30/2013.

Corrective Action Plan

The Township Treasurer provides financial services to West 40 and other districts in the region. The Township Treasurer invoiced for the services they provided on a pro-rated basis. The invoices were for services provided during the previous fiscal year and were based on the actual Township Treasurer's operating expenditures for that year. In order to report grant expenditures for services provided during the proper year, the Center has asked for the Township Treasurer to invoice West 40 in a more timely manner. This will allow West 40 to properly record and pay the invoice in the correct grant funding period.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2014

Finding Number	Condition	Current Status
2013-001	Inadequate Internal Control Procedures	Partially Repeated
2013-002	Use of Designated Grant Balances	Corrected

Basic Financial Statements

Intermediate Service Center No. 2

Statement of Net Position

June 30, 2014

Assets	Governmental Activities
Current Assets:	
Cash and investments	\$ 24,140
Due from other governments	440,672
Total current assets	464,812
Noncurrent assets:	
Capital Assets, being depreciated, net	22,941
Total assets	487,753
Deferred outflows of resources	-
Liabilities	
Current Liabilities:	
Due to other government	281,042
Accounts payable	339,689
Accrued payroll liabilities	10,190
Total current liabilities	630,921
Noncurrent Liabilities - compenstated absences	41,945
Total liabilities	672,866
Deferred inflows of resources	-
Net Position	
Net investment in capital assets	22,941
Unrestricted	(352,878)
Restricted for educational purposes	144,824
Total net position	\$ (185,113)

Intermediate Service Center No. 2

Statement of Activities

Year Ended June 30, 2014

	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Government Governmental Activities
<i>Functions/Programs</i>			
Primary government:			
Governmental activities:			
Instructional services:			
Instruction	\$ 58,562	\$ 32,217	\$ (26,345)
Supporting services	4,441,495	3,290,809	(1,150,686)
Nonprogrammed charges	293,543	-	(293,543)
Administrative:			
On-behalf payments	262,532	-	(262,532)
Total governmental activities	\$ 5,056,132	\$ 3,323,026	\$ (1,733,106)
General revenues:			
Local sources			\$ 1,549,979
Loss on disposal of assets			(90,562)
On-behalf payments			262,532
Total general revenues			1,721,949
Change in net position			(11,157)
Net position - beginning			(187,496)
Net position adjustment (See note 9)			13,540
Net position - ending			\$ (185,113)

Intermediate Service Center No. 2

Balance Sheet Governmental Funds

June 30, 2014

	General Fund	Education Fund	Institute Fund	Total Governmental Funds
Assets				
Cash - Imprest fund	\$ 3,025	\$ -	\$ -	\$ 3,025
Cash - Illinois Funds	-	-	21,115	21,115
Due from other governments	122,429	309,183	9,060	440,672
Total assets	125,454	309,183	30,175	464,812
Deferred outflows of resources	-	-	-	-
Total assets and deferred outflows of resources	\$ 125,454	\$ 309,183	\$ 30,175	\$ 464,812
Liabilities				
Due to other government	\$ 31,697	\$ 51,317	\$ 198,028	\$ 281,042
Accounts payable	224,880	113,042	1,767	339,689
Accrued payroll liabilities	10,190	-	-	10,190
Total liabilities	266,767	164,359	199,795	630,921
Deferred inflows of resources	-	-	-	-
Fund Balance				
Restricted	-	144,824	-	144,824
Assigned	-	-	-	-
Unassigned	(141,313)	-	(169,620)	(310,933)
Total fund balance	(141,313)	144,824	(169,620)	(166,109)
Total liabilities, deferred inflows of resources, and fund balance	\$ 125,454	\$ 309,183	\$ 30,175	\$ 464,812

Intermediate Service Center No. 2

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

June 30, 2014

Total fund balance - governmental funds	\$	(166,109)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		22,941
Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.		(41,945)
Net position of governmental activities	\$	(185,113)

Intermediate Service Center No. 2

Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds

Year Ended June 30, 2014

	General Fund	Education Fund	Institute Fund	Total Governmental Funds
Revenues				
Local Sources	\$ 1,185,223	\$ 211,241	\$ 153,515	\$ 1,549,979
State Sources	1,078,027	552,302	-	1,630,329
Federal Sources	-	1,880,657	-	1,880,657
Total Direct Revenues	2,263,250	2,644,200	153,515	5,060,965
On-behalf Payments	262,532	-	-	262,532
Total Revenues	2,525,782	2,644,200	153,515	5,323,497
Expenditures				
Instruction	23,268	35,294	-	58,562
Support Services	1,826,832	2,386,152	205,359	4,418,343
Nonprogrammed Charges	288,830	4,713	-	293,543
Total Direct Expenditures	2,138,930	2,426,159	205,359	4,770,448
On-behalf Payments	262,532	-	-	262,532
Total Expenditures	2,401,462	2,426,159	205,359	5,032,980
Net Change in Fund Balances	124,320	218,041	(51,844)	290,517
Prior Period Adjustment (See Note 9)	-	-	13,540	13,540
Fund Balance, July 1, 2013	(265,633)	(73,217)	(131,316)	(470,166)
Fund Balance, June 30, 2014	\$ (141,313)	\$ 144,824	\$ (169,620)	\$ (166,109)

Intermediate Service Center No. 2

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

Year Ended June 30, 2014

Net change in fund balances	\$	290,517
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 as depreciation expense. This is the amount by which loss on disposal \$90,562 exceeds capital outlays \$11,981 and depreciation expense \$7,252 in the period.		(85,833)
Revenues in the Statement of Activities that did not provide financial resources in the prior year and are not reported as revenues in the government-wide statements in the current year		(187,960)
Expenditures in the Statement of Activities that do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds		(27,881)
Change in net position of governmental activities	\$	(11,157)

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies

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

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

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

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

Intermediate Service Center No. 2 is governed by an eleven member board. The administrative agent designated for this center during the audit period was the Lyons Township School Treasurer.

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

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

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.

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.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the Center.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. Under the terms of the grant agreements, Intermediate Service Center No. 2 funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted funding resources available to finance the program. It is the policy of Intermediate Service Center No. 2 to first apply restricted fund balances, then unrestricted. For unrestricted fund balances, committed fund balances are used first, then assigned fund balances, then unassigned if any.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Government-Wide and Fund Financial Statements (Continued)

The Statement of Net Position presents Intermediate Service Center No. 2's nonfiduciary assets and liabilities, with the difference between the two reported as net position. The net position is reported in three categories:

Net Investment in Capital Assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for any debt attributable to the acquisition, construction or improvement of those assets

Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted Net Position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures. Resources are allocated to and accounted for in individual funds as required by the State of Illinois based upon the purposes for which they are spent and the means by which spending activities are controlled.

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

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Presentation (Continued)

Restricted Fund Balance – the portion of a Governmental Fund’s net position that is subject to external enforceable legal restrictions. The following account fund balances are restricted by grant agreements or contracts: West Cook Math Initiative, State Free Lunch and Breakfast, Regional Safe Schools, ISC Operations, Technology for Success, Response to Intervention, Title II-Teacher Quality, School Breakfast Program, National School Lunch Program, Title I - School Improvement and Accountability, McKinney Education for Homeless Children, Title II – Teacher Quality – Leadership Grant, High School Graduation Initiative, and Institute. Although the Institute Fund is restricted per Illinois Statute, it has been deemed unassigned due to a negative fund balance.

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

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

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

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

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

Local Sources: These are revenues and expenditures associated with workshops conducted by Intermediate Service Center No. 2 and tuition monies for teachers, and fingerprinting/background check services.

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Presentation (Continued)

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

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

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

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

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

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

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

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Measurement Focus and Basis of Presentation (Continued)

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

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

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

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

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

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

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Measurement Focus and Basis of Presentation (Continued)

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

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 satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Revenues received more than 60 days after the end of the current period are deferred inflows of resources in the governmental fund financial statements, but are recognized as current revenues in the government-wide financial statements.

Intermediate Service Center No. 2 records on-behalf payments made by the State to the Teacher's Retirement System as revenue and expenditures.

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Estimates

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

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, 2014 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: Response to Intervention, Title II – Teacher Quality, Title I – School Improvement and Accountability, McKinney Education for Homeless Children, Title II-Teacher Quality-Leadership Grant, and High School Graduation Initiative.

State grants administered that have budgets are as follows: Regional Safe Schools Program, Intermediate Service Center Operations, and Technology for Success. Local sources administered that have budgets are as follows: West Cook Math Initiative.

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 (105 ILCS 5/8). 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 \$-0- in interest was credited to Intermediate Service Center No. 2.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

*Cash and Investments in the Custody of the Township School Treasurer
(Continued)*

	Carrying Amount	Bank Balance
Cash deposits in custody of Center	\$ 24,140	\$ 24,540
Equity in pooled cash and investments of Lyons Township School Treasurer	\$ (281,042)	\$ (281,042)

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

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

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.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

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

As of June 30, 2014, the Treasurer's investments exposed to credit risk varied between an "AA+" and "A-2" rating by Standard & Poor's and between a "Aaa" and "Baa2" rating by Moody's.

Capital Assets

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

Equipment & Leasehold Improvements	7 years
------------------------------------	---------

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

The governmental activities capital asset activity for the year ended June 30, 2014 is as follows:

	Balance July 1, 2013	Additions	Retirements	Balance June 30, 2014
Cost:				
Equipment & Leasehold Improvements	\$1,236,866	\$11,981	\$1,198,066	\$ 50,781
Accumulated Depreciation:				
Equipment	\$1,128,092	\$ 7,252	\$1,107,504	\$ 27,840
Total Capital Assets, Net:				
Equipment	\$ 108,774	\$ 4,729	\$(90,562)	\$ 22,941

Depreciation expense was charged to governmental functions as follows:

Supporting Services	\$ 7,252
---------------------	----------

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Intermediate Service Center No. 2's employees hired before July 1, 2012 receive 20 days of vacation per year earned on a quarterly basis. Employees hired July 1, 2012 or after, earn vacation days on a quarterly basis based on the following schedule: 10 days for 0-2 years of continuous employment; 15 days for 3-5 years of continuous employment; 20 days for 6 or more years of continuous employment. Part-time employees who work a minimum of .6 FTE earn vacation on a prorated basis according to the full time employee vesting schedule listed above. Days in one fiscal year must be used by the end of that fiscal year.

With the prior approval of the Executive Director, up to 15 days may be carried over from year to year, but all vacation carried over must be taken within the first 6 months of the next fiscal year. For the year ended June 30, 2014, the Executive Director granted a total of 43 days or \$41,945 in vacation accruals and thus, a liability has been accrued.

Note 2 Risk Management

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

Note 3 Retirement Fund Commitments

Teacher's Retirement System of the State of Illinois

Intermediate Service Center No. 2 participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago. The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains the primary responsibility for funding the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 3 Retirement Fund Commitments (Continued)

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

TRS members include all active non-annuitants who are employed by a TRS-covered employer to provide services for which teacher licensure is required. The active member contribution rate for the year ended June 30, 2014, was 9.4 percent of creditable earnings. The same contribution rate applies to members whose first contributing service is on or after Jan. 1, 2011, the effective date of the benefit changes contained in Public Act 96-0889. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. The active member contribution rate was also 9.4 percent for the years ended June 30, 2013 and 2012.

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

- *On behalf contributions to TRS.* The State of Illinois makes employer pension contributions on behalf of the Center. For the year ended June 30, 2014, State of Illinois contributions were based on 35.41 percent of creditable earnings not paid from federal funds, and the Center recognized revenue and expenditures of \$255,532 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2013 and June 30, 2012, the contribution rates were 28.05 percent (\$235,800) and 24.91 percent (\$199,150), respectively.

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

- *2.2 formula contributions.* Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. This rate is specified by statute. Contributions for the year ended June 30, 2014 were \$5,032. Contributions for the years ending June 30, 2013 and June 30, 2012, were \$6,496 and \$7,660, respectively.
- *Federal and special trust fund contributions.* When TRS members are paid from federal and special trust funds administered by the Center, there is a statutory requirement for the Center to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that has been in effect since the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and special trust funds will be the same as the state contribution rate to TRS. Public Act 98-0674 now requires the two rates to be the same. For the year ended June 30, 2014, the employer pension contribution was 35.41 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2013 and 2012, the employer contribution was 28.05 and 24.91 percent, respectively. For the year ended June 30, 2014, salaries totaling \$145,926 were paid from federal and special trust funds that required employer contributions of \$51,672. For the years ended June 30, 2013 and June 30, 2012, required Center contributions were \$78,358 and \$129,836, respectively.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 3 Retirement Fund Commitments (Continued)

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

- *Early Retirement Option (ERO).* The Center is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member. The Maximum employer ERO contribution is 146.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2014, the Center paid \$-0- to TRS for employer contributions under the ERO program. For the years ended June 30, 2013 and June 30, 2012, the Center paid \$-0- and \$-0- in employer ERO contributions, respectively.
- *Salary increases over 6 percent and excess sick leave.*

If an employer grants salary increases over 6 percent and those salaries are used to calculate a retiree's final average salary, the employer makes a contribution to TRS. The contribution will cover the difference in actuarial cost of the benefit based on actual salary increases and the benefit based on salary increases of up to 6 percent. For the year ended June 30, 2014, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent. For the years ended June 30, 2013 and June 30, 2012, the Center paid \$-0- and \$-0-, respectively.

If an employer grants sick leave days in excess of the normal annual allotment and those days are used as TRS service credit, the employer makes a contribution to TRS. The contribution is based on the number of excess sick leave days used as service credit, the highest salary rate reported by the granting employer during the four-year sick leave review period, and the TRS total normal cost rate (17.29 percent of salary during the year ended June 30, 2014). For the year ended June 30, 2014, the Center paid \$-0- to TRS for sick leave days granted in excess of the normal annual allotment. For the year ended June 30, 2013 and June 30, 2012, the Center paid \$-0- and \$-0-, respectively.

Further Information on TRS. 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, 2014. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, 2815 West Washington Street, P.O. Box 19253, Springfield, IL 62794-9253. The most current report is also available on the TRS web site at <http://trs.illinois.gov>.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 3 Retirement Fund Commitments (Continued)

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.

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 \$200,951.

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 \$89,973, the total required contribution for the current fiscal year.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 3 Retirement Fund Commitments (Continued)

Teacher Health Insurance Security Fund

Intermediate Service Center No. 2 participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multiple-employer defined benefit post-employment healthcare plan that was established by the Illinois legislature for the benefit of retired Illinois public school teachers employed outside the city of Chicago. The THIS Fund provides medical, prescription, and behavioral health benefits, but it does not provide vision, dental, or life insurance benefits to annuitants of the Teachers' Retirement System (TRS). Annuitants not enrolled in Medicare may participate in the state-administered participating provider option plan or choose from several managed care options. Beginning February 1, 2014, annuitants who were enrolled in Medicare Parts A and B may be eligible to enroll in Medicare Advantage plans.

The State Employees Group Insurance Act of 1971 (5 ILCS 375) outlines the benefit provisions of the THIS Fund and amendments to the plan can be made only by legislative action with the Governor's approval. Effective July 1, 2012, in accordance with Executive Order 12-01, the plan is administered by the Illinois Department of Central Management Services (CMS) with the cooperation of TRS. Section 6.6 of the State Employees Group Insurance Act of 1971 requires all active contributors to TRS who are not employees of the state to make a contribution to the THIS Fund.

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

- *On-behalf Contributions to the THIS Fund.* The State of Illinois makes employer retiree health insurance contributions on behalf of Intermediate Service Center No. 2. State contributions are intended to match contributions to the THIS Fund from active members which were 0.97 percent of pay during the year ended June 30, 2014. State of Illinois contributions were \$7,000, and Intermediate Service Center No. 2 recognized revenue and expenditures of this amount during the year. State contributions intended to match active member contributions during the years ended June 30, 2013 and June 30, 2012 were 0.92 and 0.88 percent of pay, respectively. State contributions on behalf of Intermediate Service Center No. 2's employees were \$7,734 and \$7,035, respectively.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 3 Retirement Fund Commitments (Continued)

Employer Contributions to THIS Fund. Intermediate Service Center No. 2 also makes contributions to the THIS Fund. The employer THIS Fund contribution was 0.72 percent during the year ended June 30, 2014 and 0.69 and 0.66 percent during the years ended June 30, 2013 and June 30, 2012, respectively. For the year ended June 30, 2014, Intermediate Service Center No. 2 paid \$6,246 to the THIS Fund. For the years ended June 30, 2013 and June 30, 2012, the Center paid \$7,728 and \$8,717 to the THIS Fund, respectively, which was 100 percent of the required contribution.

Further information on THIS Fund. The publicly available financial report of the THIS Fund may be found on the website of the Illinois Auditor General: <http://www.auditor.illinois.gov/Audit-Reports/ABC-List.asp>. The 2014 report is listed under "Central Management Services." Prior reports are available under "Healthcare and Family Services."

Note 4 On-Behalf Contributions

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

TRS Pension Contribution	\$ 255,532
Teachers' Health Insurance Security	<u>7,000</u>
	<u>\$ 262,532</u>

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

Note 5 Due From/To Other Governments

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

Accounts Receivable – Government Claims

Title I – School Improvement & Accountability	\$ 58,309
Regional Safe Schools Programs	22,703
Title II – Teacher Quality – Leadership Grant	33,900
Response to Intervention	36,801
Technology for Success	95,708
ROE/ISC Operations	9,245
Other local governments	<u>184,006</u>
	<u>\$ 440,672</u>

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 6 Non-Cancelable Operating Leases

Lease Commitment – Melrose Park

On July 19, 2012 the Center entered into a commercial building lease agreement for the Harbor Academy School. The twelve month lease beginning on August 1, 2012 provides for the lease by the Center of space in Melrose Park, Illinois. Base annual rent is \$12,500 per month. Included in the base rent is a per-month charge of \$6,500 to cover build-out costs incurred by the lessor.

Lease Commitment - Lyons

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

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

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

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

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

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 6 Non-Cancelable Operating Leases (Continued)

Lease Commitment - Bellwood

On June 9, 2008 the Center entered into a five year lease agreement with Washington Commons LLC, for office space located in Bellwood, IL. The lease expired October 31, 2013. The terms of the agreement provide for monthly rent payments of \$10,000 due on or before the first of each month. Upon execution of the lease, the Center remitted to the lessor a payment in the amount of \$10,000, which represented the first month's rent. The lease had a renewal option for five years and was not renewed.

Lease Commitment – Hillside – Main Offices

On February 26, 2013 the Center leased a commercial building for its main offices. During December 2014, the lease was amended to add additional space. The sixty month lease began on June 1, 2013 and provides for the lease and the "Expansion Space" per the amendment by the Center of approximately 7,500 square feet of space plus the Expansion Space of 2,249 square feet for a total of 9,749 square feet in Hillside, Illinois. Base annual rent is initially set at \$7,500 plus \$2,316 for the Expansion Space per month with a 3% annual increase. The Center is responsible for common area maintenance and its pro-rata share of real estate taxes. The Center has an option to extend the term of the lease for an additional five year period with respect to the entire premises.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2014 are as follows:

Year Ended	
June 30	
2015	\$ 97,333
2016	124,113
2017	127,836
2018	131,676
	<u>\$480,958</u>

Lease Commitment – Hillside – Harbor Academy

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

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 6 Non-Cancelable Operating Leases (Continued)

Lease Commitment – Hillside – Harbor Academy (Continued)

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2014 are as follows:

Year Ended June 30	
2015	\$106,195
2016	109,912
	<u>\$216,107</u>

Note 7 New Accounting Pronouncements

In 2014, Intermediate Service Center No. 2 implemented Governmental Accounting Standards Board (GASB) GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. These statements had no impact on the financial statements for Intermediate Service Center No. 2. The Intermediate Service Center also implemented GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities*. This clarified GASB 63's presentation of deferred inflows and outflows of resources.

Intermediate Service Center No. 2

Notes to Basic Financial Statements

Note 8 Other Required Fund Disclosures

Deficit fund balances at June 30, 2014 are as follows:

Nonmajor Special Revenue Fund	\$169,620
General Fund	\$141,313

The deficit fund balance is due to the grants being overexpended and the deficits will be reduced as funds become available. It is expected that these deficits will continue into the future.

Note 9 Prior Period Adjustment

A bank account in which electronic receipt of teacher certification renewals is received was not recognized during the prior year. The following adjustment to beginning fund balance was necessary:

Nonmajor Special Revenue Funds:

<u>Institute beginning fund balance</u>	<u>\$13,540</u>
---	-----------------

Note 10 Subsequent Events

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

During May 2015, a five year contract was cancelled with AT&T. Per stipulation of the contract, the balance of the contract became due. The balance due to be paid in four monthly installments is \$78,277.

Management has evaluated subsequent events through September 20, 2016, the date on which the financial statements were available to be issued.

Required Supplementary Information

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance General Fund

Year Ended June 30, 2014

Revenues

Local Sources	
Services Provided Other LEA's	\$ 1,179,223
New Principal Mentoring	6,000
<hr/>	
Total Local Sources	1,185,223
<hr/>	
State Sources	
General State Aid	541,429
Alternative Learning Opportunites - Achievers	237,874
Alternative Learning Opportunites - Senior Plus	298,724
<hr/>	
Total State Sources	1,078,027
<hr/>	
Total Direct Revenues	2,263,250
<hr/>	
On-behalf Payments	262,532
<hr/>	
Total Revenues	2,525,782
<hr/>	

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance General Fund (Continued)

Year Ended June 30, 2014

Expenditures

Instruction	
Purchased Services	22,325
Non-Capitalized Equipment	943
<hr/>	
Total Instruction	23,268
<hr/>	
Instructional Staff	
Improvement of Instruction Services	
Salaries	942,154
Employee Benefits	237,497
Purchased Services	610,603
Supplies and Materials	33,244
Capital Outlay	-
Other Objects	(8,832)
Non-Capitalized Equipment	-
<hr/>	
Total Instructional Staff	1,814,666
<hr/>	

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance General Fund (Continued)

Year Ended June 30, 2014

Expenditures

Business	
Fiscal Services	
Salaries	10,100
Employee Benefits	2,066
	<hr/>
Total Business	12,166
	<hr/>
Total Support Services	1,826,832
	<hr/>
Nonprogrammed Charges	
Other Payments to In-State Government Units	
Payments to other LEAs	288,830
	<hr/>
Total Nonprogrammed Charges	288,830
	<hr/>
Total Direct Expenditures	2,138,930
	<hr/>
On-behalf Payments	262,532
	<hr/>
Total Expenditures	2,401,462
	<hr/>
Net Change in Fund Balances	124,320
Fund Balance, July 1, 2013	(265,633)
	<hr/>
Fund Balance, June 30, 2014	\$ (141,313)

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures, Changes in Fund Balance and Budgetary Comparison Schedule Education Fund

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenues				
Local Sources				
West Cook Math Initiative	\$ 257,273	\$ 181,023	\$ 211,241	\$ 30,218
Total Local Sources	257,273	181,023	211,241	30,218
State Sources				
State Free Lunch and Breakfast	-	-	381	381
Regional Safe Schools Program	253,797	248,500	248,500	-
I.S.C. Operations	183,832	183,832	183,832	-
Technology for Success	120,017	120,017	119,589	(428)
Total State Sources	557,646	552,349	552,302	(47)
Federal Sources				
Response to Intervention	\$ 276,386	\$ 279,968	\$ 244,055	\$ (35,913)
Title II - Teacher Quality	103	103	-	(103)
School Breakfast Program	-	-	4,570	4,570
National School Lunch Program	-	-	18,421	18,421
Title I - School Improvement and Accountability	211,570	430,121	571,054	140,933
McKinney Education for Homeless Children	88,650	88,650	8,059	(80,591)
Title II - Teacher Quality - Leadership Grant	156,075	156,075	105,547	(50,528)
High School Graduation Initiative	1,152,006	1,152,006	928,951	(223,055)
Total Federal Sources	1,884,790	2,106,923	1,880,657	(226,266)
Total Direct Revenues	2,699,709	2,840,295	2,644,200	(196,095)
On-behalf Payments				
	-	-	-	-
Total Revenues	2,699,709	2,840,295	2,644,200	(196,095)

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures, Changes in Fund Balance and Budgetary Comparison Schedule Education Fund (Continued)

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Instruction				
Salaries	27,152	27,005	28,001	(996)
Employee Benefits	4,073	4,073	(405)	4,478
Purchased Services	-	-	420	(420)
Supplies and Materials	3,147	3,147	7,278	(4,131)
Total Instruction	34,372	34,225	35,294	(1,069)
Support Services				
Pupils				
Attendance and Social Work Services				
Purchased Services	-	-	1,723	(1,723)
Total Pupils	-	-	1,723	(1,723)
Instructional Staff				
Improvement of Instruction Services				
Salaries	1,081,013	1,059,568	781,884	277,684
Employee Benefits	356,246	343,039	232,623	110,416
Purchased Services	671,533	802,452	672,806	129,646
Supplies and Materials	26,235	25,150	66,334	(41,184)
Capital Outlay	1,000	-	-	-
Other Objects	-	-	6,359	(6,359)
Educational Media Services				
Salaries	28,800	31,800	45,500	(13,700)
Employee Benefits			3,747	(3,747)
Purchased Services	-	-	68,114	(68,114)
Total Instructional Staff	2,164,827	2,262,009	1,877,367	384,642
General Administration				
Board of Education Services				
Salaries	151,943	151,943	159,099	(7,156)
Employee Benefits	27,523	27,523	22,581	4,942
Purchased Services	15,166	8,717	15,901	(7,184)
Supplies and Materials	-	-	166	(166)
Office of Principal Services				
Salaries	184,038	184,038	189,551	(5,513)
Employee Benefits	12,930	12,930	(11,519)	24,449
Total General Administration	391,600	385,151	375,779	9,372

Intermediate Service Center No. 2

Combining Schedule of Revenues, Expenditures, Changes in Fund Balance and Budgetary Comparison Schedule Education Fund (Continued)

Year Ended June 30, 2014

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Expenditures				
Business				
Fiscal Services				
Salaries	16,900	16,900	64,255	(47,355)
Employee Benefits	3,360	3,360	7,143	(3,783)
Total Business	20,260	20,260	71,398	(51,138)
Other Support Services				
Salaries	-	29,995	26,128	3,867
Employee Benefits	-	6,405	6,807	(402)
Purchased Services	-	13,165	25,565	(12,400)
Supplies and Materials	-	435	1,385	(950)
Total Other Support Services	-	50,000	59,885	(9,885)
Total Support Services	2,576,687	2,717,420	2,386,152	331,268
Nonprogrammed Charges				
Other Payments to In-State Government Units				
Purchased Services	-	-	4,713	(4,713)
Non-Capitalized Equipment	-	-	-	-
Total Nonprogrammed Charges	-	-	4,713	(4,713)
Total Direct Expenditures	2,611,059	2,751,645	2,426,159	325,486
Total Expenditures	2,611,059	2,751,645	2,426,159	325,486
Net Change in Fund Balances	\$ 88,650	\$ 88,650	218,041	\$ 129,391
Fund Balance, July 1, 2013			(73,217)	
Fund Balance, June 30, 2014			\$ 144,824	

Intermediate Service Center No. 2

Schedule of Revenues, Expenditures and Changes in Fund Balance Institute Fund

Year Ended June 30, 2014

Revenues

Local Sources	
Institute	\$ 153,515
<hr/>	
Total Local Sources	153,515
<hr/>	
Total Direct Revenues	153,515
<hr/>	
On-behalf Payments	-
<hr/>	
Total Revenues	153,515

Expenditures

Support Services	
Instructional Staff	
Improvement of Instruction Services	
Salaries	95,804
Employee Benefits	27,893
Purchased Services	13,956
Supplies and Materials	878
Payments to other LEAs	66,828
<hr/>	
Total Instructional Staff	205,359
<hr/>	
Total Support Services	205,359
<hr/>	
Total Direct Expenditures	205,359
<hr/>	
On-behalf Payments	-
<hr/>	
Total Expenditures	205,359
<hr/>	
Net Change in Fund Balances	(51,844)
<hr/>	
Prior Period Adjustment (See Note 9)	13,540
<hr/>	
Fund Balance, July 1, 2013	(131,316)
<hr/>	
Fund Balance, June 30, 2014	\$ (169,620)

Federal Compliance Section

Intermediate Service Center No. 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures 7/01/13 - 06/30/14 (D)
U.S. Dept. of Education			
High School Graduation Initiative (M)	84.360	14-S360A100058	\$ 798,109
High School Graduation Initiative (M)	84.360	13-S360A100058	131,589
			929,698
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):			
Title I - Part A Cluster			
Title I - School Improvement & Accountability (M)	84.010A	14-4331-SS	412,055
Total Title I - Part A Cluster			412,055
Title II - Teacher Quality - Leadership Grant	84.367	14-4935-02	53,022
Title II - Teacher Quality - Leadership Grant	84.367	13-4935-02	29,925
			82,947
U.S. Dept. of Education passed through Lee Ogle Regional Office of Education :			
Response to Intervention	84.323	14-4631-00	191,055
Response to Intervention	84.323	13-4631-00	33,266
			224,321
U.S. Dept. of Agriculture passed through Illinois State Board of Education (ISBE):			
Child Nutrition Cluster			
School Breakfast Program	10.553	14-4220-00	2,384
School Breakfast Program	10.553	13-4220-00	2,186
			4,570
National School Lunch Program	10.555	14-4210-00	14,653
National School Lunch Program	10.555	13-4210-00	3,768
			18,421
Total Child Nutrition Cluster			22,991
Total Expenditures of Federal Awards			\$ 1,672,012

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

The accompanying notes are an integral part of this schedule.

Intermediate Service Center No. 2

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Note 1 Significant Accounting Policies

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.

Relationship to Basic Financial Statements

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

Note 2 Subrecipients

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

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

Note 3 Description of Major Programs

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

Title I – School Improvement & Accountability:

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

Intermediate Service Center No. 2

Notes to the Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Note 3 Description of Major Programs (Continued)

The goals of the program are to:

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

High School Graduation Initiative

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

Note 4 Noncash Assistance

-None-

Note 5 Loan and Loan Guarantees Outstanding

-None-

Note 6 Insurance

-None-