

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, 2006

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

INTERMEDIATE SERVICE CENTER NO. 2
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OFFICIALS

INTERMEDIATE SERVICE CENTER NO. 2

Executive Director	(Current and during audit period)	Ms. Kay Poyner Brown
Administrative Assistant	(Current and during audit period)	Ms. Mary Ann Coull
Financial Analyst	(Current and during audit period)	Ms. Linda Rogers
Business Manager	(Current and during audit period)	Ms. Meg Dolasinski, CPA

Offices are located at:

928 Barnsdale Road
LaGrange Park, IL 60526

COMPLIANCE REPORT
SUMMARY

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

AUDITORS' REPORTS

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

SUMMARY OF AUDIT FINDINGS

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

<u>Item No.</u>	<u>Description</u>
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FINDINGS (GOVERNMENT AUDITING STANDARDS)

-N/A-

FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)

-N/A-

PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

-N/A-

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

-N/A-

EXIT CONFERENCE

An exit conference was held with agency personnel on November 1, 2006. Attending was Kay Poyner Brown, Director. Also attending was Jeff Johnson, CPA, Senior Manager from Lindgren, Callihan, Van Osdol & Co., LTD. There were no audit findings to discuss.

FINANCIAL STATEMENT
REPORT SUMMARY

The audit of the accompanying basic financial statements of Intermediate Service Center #2 was performed by Lindgren, Callihan, Van Osdol & Co., Ltd.

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

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2006, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 22, 2007 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 on other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Intermediate Service Center No. 2's basic financial statements. The Budgetary Comparison Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The Budgetary Comparison Schedule and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Dixon, Illinois
June 29, 2007

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2006, which collectively comprise the Intermediate Service Center No. 2's basic financial statements and have issued our report thereon dated June 29, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Intermediate Service Center No. 2's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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

Sidgen, Collier, Van Osdel & Co., Ltd.

Dixon, Illinois
June 29, 2007

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

Honorable William G. Holland
Auditor General
State of Illinois

Compliance

We have audited the compliance of the Intermediate Service Center No. 2 with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The Intermediate Service Center No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express an opinion on the Intermediate Service Center No. 2's compliance based on our audit.

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

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Intermediate Service Center No. 2's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Ludger, Callihan, Van Osdel & Co., Ltd

Dixon, Illinois
June 29, 2007

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
Material weakness(es) identified? yes X no
Reportable condition(s) identified
not considered to be material weaknesses? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? yes X no
Reportable conditions(s) identified
not considered to be material weaknesses? yes X none reported

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010A</u>	<u>Title I - School Improvement & Accountability</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

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

Auditee qualified as low-risk auditee? X yes no

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section II – Financial Statement Findings - None

1. *Criteria/Specific Requirement:*

2. *Condition:*

3. *Questioned Cost:*

4. *Context:*

5. *Effect:*

6. *Cause:*

7. *Recommendation:*

8. *Management's Response:*

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2006

Section III – Federal Award Findings - None

INTERMEDIATE SERVICE CENTER NO. 2
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

-N/A-

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis
Year Ended June 30, 2006

As management of Intermediate Service Center No. 2, we offer the readers of the financial statements this narrative overview and analysis of the financial activities of Intermediate Service Center No. 2 for the year ended June 30, 2006.

Management's Discussion and Analysis (MD&A) is a new element of required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 issued in June 1999. Certain comparative information between the current year (2006) and the prior year (2005), is required to be presented in the MD&A and included for this reporting period.

MD&A is provided at the beginning of the report to provide an overview of Intermediate Service Center No. 2's financial position at June 30, 2006 and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the financial statements, notes to the financial statements, required and other supplementary information.

Using This Financial Report

The financial section of this annual report consists of four parts – Independent Auditors Reports, required supplementary information which includes the MD&A (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of Intermediate Service Center No. 2: 1) Government-wide financial statements and 2) fund financial statements.

Government – Wide Financial Statements

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

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

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

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2006

Fund Financial Statements

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

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

Intermediate Service Center No. 2 maintains an individual governmental fund. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance for this fund. This fund is considered a major fund of Intermediate Service Center No. 2. More detail of the individual revenues and expenditures for this fund is presented in the supplementary section of this report.

Intermediate Service Center No. 2 is not legally required to adopt a budget, but an annual budget is reviewed for the Education Fund. Illinois State Board of Education, a granting agency, requires the Intermediate Service Center No. 2 to adopt budgets for certain program revenues. A budgetary comparison schedule has been provided as supplementary information for the Education Fund only, which is in compliance with GASB Statement No. 34.

Condensed Financial Information

Net assets are summarized in the table below.

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Assets:		
Current Assets	\$ 725,809	\$ 954,181
Capital Assets	<u>135,802</u>	<u>142,868</u>
Total Assets	<u>861,611</u>	<u>1,097,049</u>
Liabilities:		
Current Liabilities	469,729	646,960
Non-current Liabilities	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>469,729</u>	<u>646,960</u>
Net Assets:		
Investments in capital assets, net of debt	135,802	142,868
Unrestricted	<u>256,080</u>	<u>307,221</u>
Total Net Assets	<u>\$ 391,882</u>	<u>\$ 450,089</u>

Current assets consist of cash and due from other governments – governmental claims.

As of June 30, 2006, Intermediate Service Center No. 2 had no outstanding long-term debt.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2006

Intermediate Service Center No. 2's net assets consist of unrestricted net assets which represent net assets that have not been restricted by an outside party. This includes funds that have been designated for specific uses as well as amounts that are contractually committed for goods and services.

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

	June 30, 2006	June 30, 2005
Condensed Statement of Activities		
For Fiscal Year Ending:		
Revenues received:		
Program:		
Operating grants and contributions	\$3,673,110	\$3,131,704
General:		
Local sources	974,384	1,833,661
On-behalf payments	60,368	112,705
Interest	14,087	94,575
Miscellaneous	<u>51,753</u>	<u>184,216</u>
Total revenue received	<u>4,773,702</u>	<u>5,356,861</u>
Expenditures disbursed:		
Instructional services:		
Instruction	309,870	269,627
Supporting Services	4,285,795	4,496,992
Community Services	14,266	7,759
Nonprogrammed Changes	161,610	252,814
Debt Service	-0-	10
Administrative services:		
On-behalf payments	<u>60,368</u>	<u>112,705</u>
Total expenditures disbursed	<u>4,831,909</u>	<u>5,139,907</u>
Change in net assets	(58,207)	216,954
Beginning net assets	<u>450,089</u>	<u>233,135</u>
Ending net assets	<u>\$ 391,882</u>	<u>\$ 450,089</u>

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

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

As shown in the table above, the cost of governmental activities for this year was \$4,831,909. Federal and State grants financed just over three fourths of this or \$3,673,110. Local sources consisting of primarily tuition was the next largest contributor with \$974,384.

Capital assets

During the year ended June 30, 2006, the Intermediate Service Center No. 2 invested in thirty-one new computers at a cost of \$24,849 during the year and included them in capital assets. The total amount invested in capital assets net of depreciation at June 30, 2006 by the center was \$135,802.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2006

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

Unrestricted net assets

During the year unrestricted net assets and net assets invested in capital assets decreased \$58,207, due to the fact that expenses increased at a higher rate over revenues from a year ago. Total revenue for fiscal year ended June 30, 2005 was \$5,356,861 and decreased by \$583,159 to \$4,773,702 for fiscal year ended June 30, 2006, (primarily due to decreased local revenue for fiscal year ended June 30, 2006). Expenses decreased by \$307,998 from \$5,139,907 in fiscal year ended June 30, 2005, to \$4,831,909 in fiscal year ended June 30, 2006. This trend is expected to continue for the coming year and future years. The factors which have contributed to this condition are explained below.

Factors or Conditions Impacting Future Periods

On the revenue side, State grant revenue increased dramatically due primarily to the fact that the Regional Safe Schools and the Regional Safe Schools – State Aid Programs were considered State programs during the entire year ended June 30, 2006. Previously, in the first quarter of the year ended June 30, 2005 and in the entire year ended June 30, 2004, these programs were considered federal programs.

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

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

In summary, this expectation of continued increases in service demand will result in larger response times, reduced array of services, and the need to do more with both fewer human resources and less revenue.

Contacting the Intermediate Service Center's Financial Management

This financial report is designed to provide the Intermediate Service Center No. 2's citizens, taxpayers, clients and other constituents with a general overview of its finances and to demonstrate accountability for the money it receives. If the reader has questions concerning this report or need additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 928 Barnsdale Road, LaGrange Park, IL 60526.

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Net Assets

June 30, 2006

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash in custody of Center	\$ 7,639
Cash in custody of Township School Treasurer	695,771
Due from other Governments	<u>22,399</u>
Total current assets	<u>725,809</u>
Noncurrent assets:	
Capital Assets, being depreciated, net	<u>135,802</u>
Total noncurrent assets	<u>135,802</u>
Total assets	<u>861,611</u>
 <u>LIABILITIES</u> 	
Current Liabilities:	
Accounts payable	111,920
Accrued payroll liabilities	2,917
Deferred revenue	<u>354,892</u>
Total current liabilities	<u>469,729</u>
Total Liabilities	<u>469,729</u>
 <u>NET ASSETS</u> 	
Invested capital assets, net of related debt	135,802
Unrestricted	<u>256,080</u>
Total net assets	<u>\$ 391,882</u>

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

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Activities Year Ended June 30, 2006

	<u>Expenses</u>	<u>Program Revenues</u> Operating Grants and Contributions	<u>Net (Expense) Revenue and Changes in Net Assets</u> <u>Primary Government Governmental Activities</u>
FUNCTIONS/PROGRAMS			
Primary government:			
Governmental activities:			
Instructional Services:			
Instruction	\$ 309,870	\$ 282,893	\$ (26,977)
Supporting Services	4,285,795	3,252,189	(1,033,606)
Community Services	14,266	-0-	(14,266)
Nonprogrammed Charges	161,610	138,028	(23,582)
Administrative:			
On-behalf payments	60,368	-0-	(60,368)
 Total governmental activities	 <u>\$ 4,831,909</u>	 <u>\$ 3,673,110</u>	 <u>(1,158,799)</u>
 General revenues:			
Local sources			974,384
On-behalf payments			60,368
Interest			14,087
Miscellaneous			51,753
Total general revenues, special and extraordinary items, and transfers			<u>1,100,592</u>
Change in net assets			(58,207)
Net assets - beginning			<u>450,089</u>
 Net assets - ending			 <u>\$ 391,882</u>

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

INTERMEDIATE SERVICE CENTER NO. 2

Balance Sheet Governmental Funds June 30, 2006

	<u>Governmental Fund Type Education Fund</u>
<u>ASSETS</u>	
Cash in custody of Center	\$ 7,639
Cash in custody Township School Treasurer	695,771
Due from other governments	<u>22,399</u>
Total assets	<u>\$ 725,809</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 111,920
Accrued payroll liabilities	2,917
Deferred revenue	<u>354,892</u>
Total liabilities	<u>469,729</u>
<u>FUND BALANCES</u>	
Fund balance - unrestricted	<u>256,080</u>
Total fund balance	<u>256,080</u>
Total liabilities and fund balance	<u>\$ 725,809</u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2006

Total fund balance - governmental fund	\$ 256,080
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.	<u>135,802</u>
Net assets of governmental activities	<u><u>\$ 391,882</u></u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
Year Ended June 30, 2006

	Governmental Fund Type Education Fund
<u>REVENUES</u>	
Local Sources	\$ 1,040,224
State Sources	1,597,299
Federal Sources	2,075,811
Total Direct Revenues	4,713,334
On-behalf Payments	60,368
Total Revenues	4,773,702
<u>EXPENDITURES</u>	
Current:	
Instruction	309,870
Support Services	4,278,729
Community Services	14,266
Nonprogrammed Charges	161,610
Total Direct Expenditures	4,764,475
On-behalf Payments	60,368
Total Expenditures	4,824,843
Net Change in Fund Balance	(51,141)
Fund Balance, July 1, 2005	307,221
Fund Balance, June 30, 2006	\$ 256,080

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
Governmental Funds
Year Ended June 30, 2006

Net change in fund balances	\$	(51,141)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	59,586	
Depreciation expense		<u>(66,652)</u>	<u>(7,066)</u>

Change in net assets of governmental activities	\$	<u><u>(58,207)</u></u>
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The notes to the financial statements are an integral part of this statement.

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

A. Reporting Entity:

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

A. Reporting Entity (Continued):

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

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

B. Adoption of New Accounting Standard:

In June 1999, GASB unanimously approved Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Government"; Statement No. 37 "Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Government"; and Statement No. 38 "Certain Financial Statement Note Disclosures". Additionally in March 2003 GASB unanimously approved Statement No. 40 "Deposit and Investment Risk Disclosures". Certain significant changes in the Statements include the following.

The financial statements include:

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

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

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

C. Government-Wide and Fund Financial Statements:

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

D. Measurement Focus and Basis of Presentation:

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

Governmental Fund Type

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

Education Fund

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

All federal, State and local programs are accounted for in the Education Fund. Federal grants that are accounted for and included in the Education Fund in the financial statements are as follows:

Title II – Teacher Quality – Leadership Grant: 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.

Title IV – Safe and Drug Free Schools – Formula: This program provides promotion of and support for maintaining safe and drug free schools in the area.

Title I – Reading First Part B SEA Funds: Funding which provides reading support to teachers in schools that are having academic difficulty and that have a high incidence of low income students. Reading First regions are identified by ISBE and funding goes to those agencies identified by the State.

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.

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

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.

Title V – Innovative Programs – Formula: Program provided to help schools having academic difficulty.

State grants that are accounted for and included in the Education Fund are as follows:

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.

Regional Safe Schools – 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.

I.S.C. Operations: Program monies for I.S.C. 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

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Reading Improvement Block Grant: Reading First funding that helps provide professional development to teachers in schools that are in academic difficulty and who have a high incidence of low income students.

Other State Programs: System-Of-Support funding that assist districts having academic difficulty to align their curriculum to Illinois Standards.

E. Basis of Accounting:

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

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

F. Budgets and Budgetary Accounting:

Although the operating budget was reviewed, Intermediate Service Center No. 2 did not formally adopt a budget for the year ended June 30, 2006 and is not legally required to do so. However, the Illinois State Board of Education requires budgets for certain State and Federal programs. These budgets were used to prepare the Budgetary Comparison Schedule of the Education Fund.

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

State grants administered that have budgets are as follows Intermediate Service Center Operations, Regional Safe Schools Program, Regional Safe Schools-General State Aid, Reading Improvement Block, and Other State Revenues.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

The Lyons Township School Treasurer (Treasurer), a separate legal governmental agency, serves as the Treasurer as prescribed by the Illinois School Code and the Illinois Compiled Statutes. In addition to Intermediate Service Center No. 2, the Treasurer serves other districts. Cash from all districts is combined by the Treasurer and excess cash is invested as authorized by law. Because there is no specific identification of investments by individual districts, interest earned on investments is allocated monthly to the various districts based upon their average monthly cash and investment balances. The Treasurer is authorized by state statutes and local ordinances, to invest on behalf of the district in obligations of: U.S. Treasury agencies backed by the full faith and credit of the U.S. Government, certificates of deposit issued by commercial banks and savings and loan associations, and commercial paper rated within the three highest classifications by at least two standard rating services. Because all cash and investments are pooled by a separate legal governmental agency (Treasurer) categorization by risk category is not determinable. Further information regarding collateralization of investments and insurance is available from the Treasurer's financial statements. During the year \$14,087 in interest was credited to Intermediate Service Center No. 2.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits in custody of Center	<u>\$ 7,639</u>	<u>\$ 15,493</u>
Equity in pooled cash and investments of Lyons Township School Treasurer	<u>\$695,771</u>	<u>\$695,771</u>

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

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

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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

- Money market mutual funds registered under the Investment Company Act of 1940.
- Federal Deposit Insurance Corp. (FDIC) banks, short-term discount obligations of the Federal National Mortgage Association, and securities issuable by savings banks or savings and loan associations insured by the FDIC.
- Short-term obligations of corporations (commercial paper) organized in the United States of America with assets exceeding \$500,000,000 and one of the three highest rating classifications of at least two standard services.
- Illinois Public Treasurer's Investment Pool.

As of June 30, 2006, all the Treasurer's investments exposed to credit risk had an "A-1" rating by Standard & Poor's and a "P-1" rating by Moody's.

H. Capital Assets:

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

Equipment 7 years

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, 2006 is as follows:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2006</u>
Cost:				
Equipment	<u>\$647,863</u>	<u>\$ 59,586</u>	<u>\$ -0-</u>	<u>\$707,449</u>
Accumulated Depreciation:				
Equipment	<u>\$504,995</u>	<u>\$ 66,652</u>	<u>\$ -0-</u>	<u>\$571,647</u>
Total Capital Assets, Net:				
Equipment	<u>\$142,868</u>	<u>\$ (7,066)</u>	<u>\$ -0-</u>	<u>\$135,802</u>

Depreciation expense was charged to governmental functions as follows:

Supporting Services	<u>\$66,652</u>
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INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

2. RENTAL LEASE AGREEMENT:

Intermediate Service Center No. 2 has leased approximately 9,000 square feet of space at the Forest Road East School District for use as its Administrative Office at \$8.60 per square foot payable in equal quarterly installments. This agreement is effective for the period of July 1, 2005 through June 30, 2006.

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

3. RISK MANAGEMENT:

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

4. RETIREMENT FUND COMMITMENTS:

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

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

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

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

- *On-behalf contributions.* The State of Illinois makes employer pension contributions on behalf of Intermediate Service Center No. 2. For the year ended June 30, 2006, the State of Illinois contributions were based on 7.06 percent of creditable earnings, and the district recognized revenue and expenditures of \$60,368 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2005 and June 30, 2004, the State of Illinois contribution rates as percentages of creditable earnings were 11.76 percent (\$112,705) and 13.98 percent (\$131,567), respectively.

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

4. RETIREMENT FUND COMMITMENTS (Continued):

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

- *2.2 formula contributions.* Employers contribute 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the year ended June 30, 2006 were \$4,959. Contributions for the years ending June 30, 2005 and June 30, 2004 were \$5,559 and \$5,458, respectively.
- *Federal and trust fund contributions.* When TRS members are paid from federal and trust funds administered by the Center, there is a statutory requirement for the Center to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that was first effective in the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and trust funds will be the same as the State contribution rate to TRS. For the year ended June 30, 2006, the employer pension contribution was 7.06 percent of salaries paid from federal and trust funds. For the two years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2006, salaries totaling \$323,704 were paid from federal and trust funds that required employer contributions of \$22,854. For the years ended June 30, 2005 and June 30, 2004, required center contributions were \$46,322 and \$32,093, respectively.
- *Early Retirement Option.* Intermediate Service Center No. 2 is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member and under which ERO program the member retires. Under Public Act 94-0004, a "Pipeline ERO" program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007. If members do not meet these conditions, they can retire under the "Modified ERO" program which requires higher member and employer contributions to TRS. Also, under Modified ERO, Public Act 94-0004 eliminates the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service (unless the member qualifies for the Pipeline ERO). Under the ERO program that expired on June 30, 2005 and the Pipeline ERO, the maximum employer contribution is 100 percent of the member's highest salary used in the final average salary calculation. Under the Modified ERO, the maximum employer contribution is 117.5 percent. Both the 100 percent and 117.5 percent maximums apply when the member is age 55 at retirement. For the year ended June 20, 2006, the Center paid \$-0- to TRS for employer contributions under the Pipeline ERO and Modified ERO programs. For the years ended June 30, 2005 and June 30, 2004, the Center paid \$104,206.08 and \$-0- respectively, in employer ERO contributions.

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

4. RETIREMENT FUND COMMITMENTS (Continued):

B. Illinois Municipal Retirement Fund:

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

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 \$97,492.

C. Social Security:

Employees not qualifying for coverage under the Illinois Teacher's Retirement System or the Illinois Municipal Retirement Fund are considered "non-participating employees". These employees and those qualifying for coverage under the Illinois Municipal Retirement Fund are covered under Social Security. Intermediate Service Center No. 2 paid \$90,256, the total required contribution for the current fiscal year.

5. DUE TO/FROM OTHER GOVERNMENTS:

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

Due From Other Governments:	
Illinois State Board of Education	<u>\$22,399</u>

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

6. DEFERRED REVENUE:

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

Title I – School Improvement and Accountability	\$162,725
Title I – Reading First Part B SEA Funds	122,501
Learn and Serve America	4,439
Title II – Teacher Quality – Leadership Grant	45,911
Other State Programs	<u>19,316</u>
	<u>\$354,892</u>

7. NEW ACCOUNTING PRONOUNCEMENTS:

The Center adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures" (an amendment of GASB Statement No. 3), which adds, modifies, and eliminates certain risk disclosures related to deposits and investments. There was no significant impact on the Center's financial statements as a result of adopting this statement.

The Center adopted GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" (an amendment of GASB Statement NO. 34), which clarifies the definition of legal enforceability as it relates to net assets restricted by enabling legislation and requires disclosure of the amount of net assets restricted by enabling legislation.

There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2005, the Center adopted provisions related to pension transactions of Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit (OPEB) Expenditures/Expense and Liabilities by Cost-Sharing Employers" which clarifies pension and OPEB expenditure recognition requirements for cost-sharing employers. There was no significant impact on the Center's financial statements as a result of adopting this statement.

8. SUBSEQUENT EVENTS:

A) Lease Commitment:

On July 14, 2006 a new lease agreement was entered into for property located in Oak Park, Illinois. The lease required the following rental terms:

July 14, 2006 through July 31, 2006	\$468 per day
August 1, 2006 through July 31, 2007	\$14,026 per month
August 1, 2007 through July 31, 2008	\$14,517 per month
August 1, 2008 through July 31, 2009	\$15,025 per month
August 1, 2009 through July 31, 2010	\$15,551 per month
August 1, 2010 through July 31, 2011	\$16,095 per month

INTERMEDIATE SERVICE CENTER NO. 2

Notes To Basic Financial Statements

June 30, 2006

8. SUBSEQUENT EVENTS (Continued):

A) Lease Commitment (Continued):

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

Minimum future rental payments under the non-cancelable lease which has a term in excess of 1 year as of June 30, 2006 for each of the next five years is as follows:

Year Ended <u>June 30</u>	
2007	\$154,286
2008	173,713
2009	179,792
2010	186,086
2011 and later years	<u>208,691</u>
	<u>\$902,568</u>

B) Tenant Building Improvements:

The Center borrowed \$125,000 from a local bank with interest at 8.00% payable in monthly installments of \$5,653.75 beginning November 1, 2008. The purpose of the loan was for building improvements to the leased facility in Oak Park, Illinois.

9. GASB STATEMENTS:

Effective for the year ending June 30, 2005, the Center adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB No. 3)*; which adds, modifies, and eliminates certain risk disclosures related to deposits and investments. There was no significant impact on the Center's financial statements as a result of adopting this statement.

In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 44 *Economic Condition Reporting: The Statistical Section*. The Center is required to implement this standard for the fiscal year ending June 30, 2006. There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2005, the Center adopted GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation (an amendment of GASB No. 34)*, which clarifies the definition of legal enforceability as it relates to net assets restricted by enabling legislation and requires disclosure of the amount of net assets restricted by enabling legislation. There was no significant impact on the Center's financial statements as a result of adopting this statement.

In June 2005, the Governmental Accounting Standards Board (GASB) issued Statement No. 47 *Accounting for Termination Benefits*. The Center is required to implement this standard for the fiscal year ending June 30, 2006. There was no significant impact on the Center's financial statements as a result of adopting this statement.

SUPPLEMENTAL INFORMATION

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund

Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Local Sources			
Interest	\$ -0-	\$ 14,087	\$ 14,087
Services Provided Other LEA's	1,239,901	974,384	(265,517)
Other	50,000	51,753	1,753
Total Local Sources	<u>1,289,901</u>	<u>1,040,224</u>	<u>(249,677)</u>
State Sources			
Regional Safe Schools Program	743,655	743,655	-0-
Regional Safe Schools - General State Aid	481,027	481,027	-0-
Reading Improvement Block Grant	-0-	9,000	9,000
Other State Revenues	337,700	318,248	(19,452)
I.S.C. Operations	45,369	45,369	-0-
Total State Sources	<u>1,607,751</u>	<u>1,597,299</u>	<u>(10,452)</u>
Federal Sources			
Title V - Innovative Programs - Formula	-0-	145	145
Title I - School Improvement & Accountability	1,559,620	1,246,586	(313,034)
Title IV - Safe and Drug Free Schools - Formula	18,611	18,611	-0-
Title II - Teacher Quality - Leadership Grant	128,536	158,490	29,954
Title II - Teacher Quality	-0-	151	151
Title I - Reading First Part B SEA Funds	554,400	629,244	74,844
Learn and Serve America	24,120	22,584	(1,536)
Total Federal Sources	<u>2,285,287</u>	<u>2,075,811</u>	<u>(209,476)</u>
Total Direct Revenues	<u>5,182,939</u>	<u>4,713,334</u>	<u>(469,605)</u>
On-behalf Payments	-0-	60,368	60,368
Total Revenues	<u>5,182,939</u>	<u>4,773,702</u>	<u>(409,237)</u>

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>			
Current Operating			
Instruction			
Salaries	185,573	218,000	(32,427)
Employee Benefits	40,646	27,972	12,674
Purchased Services	4,000	8,231	(4,231)
Supplies and Materials	50,653	55,667	(5,014)
Capital Outlay	29,020	-0-	29,020
Total Instruction	<u>309,892</u>	<u>309,870</u>	<u>22</u>
Support Services			
Pupils			
Attendance and Social Work Services			
Salaries	534,488	198,657	335,831
Employee Benefits	11,761	26,577	(14,816)
Purchased Services	22,895	-0-	22,895
Total Pupils	<u>569,144</u>	<u>225,234</u>	<u>343,910</u>
Instructional Staff			
Improvement of Instruction Services			
Salaries	899,269	1,004,287	(105,018)
Employee Benefits	180,460	307,874	(127,414)
Purchased Services	1,693,535	1,521,920	171,615
Supplies and Materials	657,180	494,887	162,293
Capital Outlay	86,610	56,373	30,237
Other Objects	9,620	330	9,290
Transfers	-0-	4,611	(4,611)
Total Instructional Staff	<u>3,526,674</u>	<u>3,390,282</u>	<u>136,392</u>

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2006

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General Administration			
Board of Education Services			
Salaries	14,151	6,147	8,004
Employee Benefits	3,024	1,193	1,831
Purchased Services	45,186	61,898	(16,712)
Supplies and Materials	16,500	6,059	10,441
Capital Outlay	1,200	1,159	41
Special Area Administrative Services			
Salaries	10,400	122,498	(112,098)
Employee Benefits	2,288	25,591	(23,303)
Purchased Services	1,500	805	695
Capital Outlay	-0-	1,204	(1,204)
Office of the Principal Services			
Salaries	168,120	176,243	(8,123)
Employee Benefits	36,986	15,357	21,629
Purchased Services	6,900	-0-	6,900
Total General Administration	<u>306,255</u>	<u>418,154</u>	<u>(111,899)</u>
Business			
Fiscal Services			
Salaries	79,613	85,781	(6,168)
Employee Benefits	15,987	17,757	(1,770)
Purchased Services	11,597	12,500	(903)
Operation and Maintenance of Plant Services			
Purchased Services	15,000	13,130	1,870
Supplies and Materials	-0-	(1,325)	1,325
Pupil Transportation Services			
Purchased Services	500	1,323	(823)
Total Business	<u>122,697</u>	<u>129,166</u>	<u>(6,469)</u>
Central			
Planning, Research, Development and Evaluation Services			
Salaries	-0-	19,156	(19,156)
Employee Benefits	-0-	3,320	(3,320)
Purchased Services	-0-	17,203	(17,203)
Supplies and Materials	-0-	10,973	(10,973)
Data Processing			
Purchased Services	-0-	10,000	(10,000)
Total Central	<u>-0-</u>	<u>60,652</u>	<u>(60,652)</u>

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>			
Other Support Services			
Salaries	38,744	32,286	6,458
Employee Benefits	7,748	9,509	(1,761)
Purchased Services	-0-	13,446	(13,446)
Total Other Support Services	<u>46,492</u>	<u>55,241</u>	<u>(8,749)</u>
Total Support Services	<u>4,571,262</u>	<u>4,278,729</u>	<u>292,533</u>
Community Services			
Purchased Services	1,800	7,357	(5,557)
Supplies and Materials	200	6,909	(6,709)
Total Community Services	<u>2,000</u>	<u>14,266</u>	<u>(12,266)</u>
Nonprogrammed Charges			
Other Payments to In-State Government Units			
Purchased Services	79,625	28,166	51,459
Transfers	160,594	133,444	27,150
Total Nonprogrammed Charges	<u>240,219</u>	<u>161,610</u>	<u>78,609</u>
Total Direct Expenditures	<u>5,123,373</u>	<u>4,764,475</u>	<u>358,898</u>
On-behalf Payments	<u>-0-</u>	<u>60,368</u>	<u>(60,368)</u>
Total Expenditures	<u>5,123,373</u>	<u>4,824,843</u>	<u>298,530</u>
Excess of Revenues Over Expenditures	<u>\$ 59,566</u>	<u>(51,141)</u>	<u>\$ (110,707)</u>
Fund Balance, July 1, 2005		<u>307,221</u>	
Fund Balance, June 30, 2006		<u>\$ 256,080</u>	

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2006

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures	
			7/01/04 - 6/30/05 (C)	7/01/05 - 06/30/06 (D)
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title V - Innovative Programs - Formula	84.298A	06-4100-00		145
Title I - School Improvement & Accountability (M)	84.010A	05-4331-SS	973,586	357,136
Title I - School Improvement & Accountability (M)	84.010A	06-4331-SS		889,450
			973,586	1,246,586
Title IV - Safe and Drug Free Schools - Formula	84.186A	06-4400-00		18,611
Title II - Teacher Quality	84.367A	06-4932-00		151
Title II - Teacher Quality - Leadership Grant	84.367A	05-4935-SS	70,187	130,081
Title II - Teacher Quality - Leadership Grant	84.367A	06-4935-SS		28,409
			70,187	158,490
Title I - Reading First Part B SEA Funds	84.357A	06-4337-04		156,577
Title I - Reading First Part B SEA Funds	84.357A	06-4337-02		66,893
Title I - Reading First Part B SEA Funds	84.357A	06-4337-01		324,990
Title I - Reading First Part B SEA Funds	84.357A	06-4337-00		80,784
				629,244
U.S. Dept. of Health and Human Services passed through Illinois State Board of Education (ISBE):				
Learn and Serve America	94.004	05-4910-00	18,772	5,233
Learn and Serve America	94.004	06-4910-00		17,351
			18,772	22,584
Total Expenditures of Federal Awards			\$ 1,062,545	\$ 2,075,811

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

The accompanying notes are an integral part of this schedule.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

1. SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

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

B. Relationship to Basic Financial Statements:

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

2. SUBRECIPIENTS:

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

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

3. DESCRIPTION OF MAJOR PROGRAM:

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

Title I – School Improvement & Accountability:

This program is part of the Center’s System of Support Coordination and Services Plan. The program is part of a strategy to nurture and assist low-performing schools in West Cook County. Services initially are targeted in 32 elementary and high schools now on the Academic Early Warning List (AEWL), with provision to support additional schools when they are identified. Moreover, schools in jeopardy of being identified as low-performing will be encouraged to access school improvement resources on a fee for services basis.

The goals of the program are to:

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

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards (Continued)
June 30, 2006

4. NONCASH ASSISTANCE:

-NONE-

5. LOAN AND LOAN GUARANTEES OUTSTANDING:

-NONE-

6. INSURANCE:

-NONE-