

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, 2012

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 |
| Business & Financial Analyst | (Current and during audit period) | Ms. Linda Rogers |
| Business Manager | (During audit period) | Ms. Meg Fetzer, CPA |

Offices are located at:

4413 Roosevelt Road
Suite 104
Hillside, IL 60162

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 | -4- | -3- |
| Repeated audit findings | -2- | -0- |
| Prior recommendations implemented or not repeated | -1- | -0- |

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

| <u>Item No.</u> | <u>Page</u> | <u>Description</u> | <u>Finding Type</u> |
|---|-------------|--|--|
| FINDINGS (GOVERNMENT AUDITING STANDARDS) | | | |
| 12-1 | 11 | Inadequate Internal Control Procedures | Material Weakness |
| 12-2 | 13 | Expenditure and Revenue Reports Do Not Agree to General Ledger | Material Weakness |
| 12-3 | 15 | Use of Designated Grant Balances | Material Weakness |
| 12-4 | 16 | Controls Over Financial Statement Preparation | Material Weakness |
| FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE) | | | |
| 12-1 | 11 | Inadequate Internal Control Procedures | Material Weakness |
| PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS) | | | |
| -0- | | | |
| PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE) | | | |
| 11-1 | 23 | Inadequate Documentation for Payroll Expenditures | Significant Deficiency and Noncompliance |

EXIT CONFERENCE

The Center waived having an exit conference per a letter dated March 11, 2014. Responses to the recommendations were provided by Kay Poyner Brown, Executive Director, in a letter dated February 25, 2014.

INTERMEDIATE SERVICE CENTER NO. 2
FINANCIAL STATEMENT REPORT
SUMMARY

The audit of the accompanying basic financial statements of Intermediate Service Center No. 2 was performed by Bass, Solomon & Dowell, LLP.

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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

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, 2012, 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, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2012, 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 March 19, 2014 on our consideration of the Intermediate Service Center No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 24 through 27, be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Intermediate Service Center No. 2's financial statements. The Budgetary Comparison Schedules and Schedule of Expenditures of Federal Awards, as required by U.S. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

Bass, Johnson & Powell LLP

Palatine, Illinois
March 19, 2014

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

Honorable William G. Holland
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

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 Intermediate Service Center No. 2, as of and for the year ended June 30, 2012, which collectively comprise the Intermediate Service Center No. 2's basic financial statements and have issued our report thereon dated March 19, 2014. 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

Management of Intermediate Service Center No. 2 is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Intermediate Service Center No. 2's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Intermediate Service Center No. 2's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 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 findings 12-1, 12-2, 12-3 and 12-4 in the accompanying Schedule of Findings and Questioned Costs 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*.

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. We did not audit the Intermediate Service Center No. 2's responses and, accordingly, we express no opinion on the responses.

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.

Bass, Johnson & Howell LLP

Palatine, Illinois
March 19, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON 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

Board of Directors
Intermediate Service Center No. 2

Compliance

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, 2012. 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 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, 2012.

Internal Control Over Compliance

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 the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Intermediate Service Center No. 2's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 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 program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 12-1 to be a material weakness.

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. We did not audit the Intermediate Service Center No. 2's response and, accordingly, we express no opinion on the response.

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.

Ernst, Johnson & O'Neill, LLP

Palatine, Illinois
March 19, 2014

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified yes X none reported
- Noncompliance material to financial statements noted? yes X no

Federal Award:

Internal Control over major programs:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified 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 Section 510(a) of OMB Circular A-133?

X yes no

Identification of major programs:

CFDA Number

Name of Federal Program or Cluster

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, 2012

Section II – Financial Statement Findings

Finding No. 12-1 – Inadequate Internal Control Procedures

Federal Program Name: Title I – School Improvement and Accountability

Project No.: 2012-4331-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.: 12-S360A100058

CFDA No.: 84.360

Federal Agency: U.S. Department of Education

Criteria/Specific Requirement:

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

Condition:

Intermediate Service Center No. 2 has not established sufficient controls over its accounting functions. For example, auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring both the Grant Manager's and the Executive Director's approval of purchases. In 11 of 80 (14%) instances, purchase orders were not approved by either the Grant Manager or the Executive Director.
- The Service Center did not adhere to its policy of requiring the Executive Director's approval of purchases. In 37 of 80 (46%) instances, purchase orders were approved by the Grant Manager but not by the Executive Director.
- The Service Center did not adhere to its policy of requiring the Grant Manager's approval of purchases. In 2 of 80 (3%) instances, purchase orders were approved by the Executive Director but not by the Grant Manager.
- The Service Center did not cancel invoices once paid. In 42 of 80 (53%) instances, invoices were not canceled once paid.

Questioned Costs:

Not determinable.

Context:

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2012 were \$1,750,194 for Title I – School Improvement and Accountability and \$1,790,058 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.

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section II – Financial Statement Findings (Continued)

Finding No. 12-1 – Inadequate Internal Control Procedures (Continued)

Cause:

The Service Center did not adhere to established internal control procedures in place to ensure that expenditures were properly authorized, approved and canceled once paid.

Recommendation:

The Service Center should comply with its established system of internal controls to ensure expenditures are properly approved before payments are made and posted to the general ledger. The Grant Manager and Executive Director should both approve all purchase orders. When the invoice is ready for payment, there should be an approval signature by the Executive Director indicating the supporting documentation was reviewed and the invoice is properly authorized and ready for payment. In order to maintain better controls over cash disbursements, invoices should be canceled by stamping “paid” on the face of the invoices.

Management's Response:

The Service Center acknowledges that internal controls need to be strengthened in this area. Since the on-site portion of the June 30, 2012 audit was completed, new procedures have been implemented that assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. Invoices will also be canceled by stamping or writing “paid” on the face of the invoice.

The Service Center process utilizes a purchase order related to each invoice, which includes required signatures, appropriate coding, and other information. Once an invoice is paid, the check number and date are recorded on the purchase order, providing documentation that the invoice has been paid. The purchase order, invoice, and any other documentation is then filed with that month's check ledger.

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section II – Financial Statement Findings (Continued)

Finding No. 12-2 – Expenditure and Revenue Reports Do Not Agree to General Ledger

Criteria/Specific Requirement:

Expenditure and revenue reports for education program funding passed-through from the Illinois State Board of Education (ISBE) should agree with the revenue and expenditures reported on the Intermediate Service Center No. 2's (Service Center) general ledger.

Condition:

A comparison of expenditure and revenue reports to Intermediate Service Center No. 2's general ledger revealed instances where the totals on the June 30, 2012 expenditure reports submitted to the Illinois State Board of Education did not agree with the Service Center's general ledger. In addition, the revenue reports showing funds dispersed by ISBE to the Service Center as of June 30, 2012 did not agree with the Service Center's general ledger. The following instances were noted:

- The expenditure report submitted to ISBE for the Technology for Success program (2012-3780-00) reported total expenditures of \$135,701, while the general ledger reported total expenditures of \$0.
- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Technology for Success program (2012-3780-00) reported total funds disbursed through June 30, 2012 of \$145,460, while the general ledger reported total funds received of \$0.
- The expenditure report submitted to ISBE for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total expenditures of \$26,664, while the general ledger reported total expenditures of \$0.
- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total funds disbursed through June 30, 2012 of \$26,664, while the general ledger reported total funds received of \$0.

Effect:

Because the expenditure reports submitted and funds received from ISBE were not recorded on the general ledger, revenues and expenses were understated by \$172,124 and \$162,365, respectively.

Cause:

The Service Center personnel responsible for recording the activity for these programs in the general ledger misunderstood the accounting treatment of these pass-through funds.

Recommendation:

The Service Center personnel responsible for preparing the expenditure reports and recording funds received from ISBE should ensure all expenditure and revenue reports are supported by the appropriate adjusted general ledger accounts maintained in the Service Center's accounting software. The Service Center should implement policies and procedures to ensure timely and complete monthly reconciliations and closing procedures are occurring. This would reduce the chance of significant errors in the financial statements.

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section II – Financial Statement Findings (Continued)

Finding No. 12-2 – Expenditure and Revenue Reports Do Not Agree to General Ledger (Continued)

Management's Response:

The Service Center became the Fiscal Agent for the Learning Technology Center (LTC) in 2011. This change caused LTC funds and the above mentioned grants to be handled by a new Township Treasurer (TTO). With the transition from one TTO to another, the LTC funds were transferred into a separate general ledger account, not an Intermediate Service Center No. 2 account. The separate general ledger transactions were managed by Service Center staff, with expenditure approval by the Executive Director and the Service Center Governing Board. The resignation of the Service Center's part time CPA at the end of the June 30, 2012 fiscal year left the agency without an experienced person on staff to reconcile accounts prior to the June 30, 2012 audit process.

Beginning with the June 30, 2013 audit, the Service Center hired a consulting CPA to reconcile ledgers, provide adjusted trial balances, and oversee the audit preparation process. The Service Center agrees with the above finding for the June 30, 2012 audit and anticipates that the services of the consulting CPA to support the audit preparation process, as well as improvements to internal accounting procedures, will eliminate such errors in the future.

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2012

Section II – Financial Statement Findings (Continued)

Finding No. 12-3 - Use of Designated Grant Balances (Repeat from Finding 11-2)

Criteria/Specific Requirement:

Intermediate Service Center No. 2 (Service Center) runs several grant funded programs. Programs funded by State and federal grants must be tracked and maintained separately.

Condition:

Intermediate Service Center No. 2 pools program and local revenue into the same bank account. Cash that was granted to the Service Center, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

Effect:

Cash balances that were designated for specific grant programs were used to fund expenditures for purposes other than those for which the revenue source was designated.

Cause:

According to Service Center officials, because the Intermediate Service Center is primarily funded on a reimbursement basis, the delay in funding received from the State of Illinois caused programs, which the Intermediate Service Center was already in the midst of operating, to have severe cash deficits. The Service Center officials stated that to continue operating as the grant agreement stipulates, cash had to be used from other sources in order to fund expenditures that were to be reimbursed by the State.

Recommendation:

The Intermediate Service Center should not use cash designated for specific grant purposes to cover deficit cash balances in programs other than those for which the cash was granted.

Management's Response:

The source of cash used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

FY 2012 saw a continuation of delinquent receipts of State grant funds as experienced in FY 2011. As in FY 2011, programs with a start date of July 1 required expenditures to be incurred without available state funds. Intermediate Service Center No. 2 was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. On a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the 1st quarter of 2012 the Service Center received only 5.5% of its FY 2012 budgeted state dollars; at the end of the 2nd quarter only 25% was received; by the end of the 3rd quarter 55% was received; at the end of FY 2012 the Service Center received 84% of the total budgeted state dollars. The remaining 16% of the FY 12 funds were received during the 1st quarter of FY 2013.

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section II – Financial Statement Findings (Continued)

Finding No. 12-4 – Controls Over Financial Statement Preparation (Repeat from Finding 11-3)

Criteria/Specific Requirement:

Intermediate Service Center No. 2 (Service Center) 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 and expertise to prepare and/or thoroughly review GAAP based financial statements to ensure that they are free of material misstatements and include all disclosures as required by the Governmental Accounting Standards Board (GASB).

Condition:

Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting. While the Service Center 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. For example, auditors, in their review of the Service Center's accounting records, noted that material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

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 Intermediate Center No. 2's officials, although they employed a part-time Certified Public Accountant (CPA) on staff, there was not adequate funding to devote to employing a full-time CPA.

Recommendation:

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

Management's Response:

Intermediate Service Center No. 2 has secured the services of a consulting CPA to assist with audit preparation processes, beginning with the June 30, 2013 audit.

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section III – Federal Award Findings

Material Weakness

Finding No. 12-1 – Inadequate Internal Control Procedures
(Finding details on pages 11 and 12)

INTERMEDIATE SERVICE CENTER NO. 2
Corrective Action Plan for Current Year Audit Findings
Year Ended June 30, 2012

Corrective Action Plan

Finding No. 12-1 – Inadequate Internal Control Procedures

Federal Program Name: Title I – School Improvement and Accountability
Project No.: 2012-4331-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.: 12-S360A100058
CFDA No.: 84.360
Federal Agency: U.S. Department of Education

Condition:

Intermediate Service Center No. 2 has not established sufficient controls over its accounting functions. For example, auditors, in their review of the Service Center's accounting records, noted the following:

- The Service Center did not adhere to its policy of requiring both the Grant Manager's and the Executive Director's approval of purchases. In 11 of 80 (14%) instances, purchase orders were not approved by either the Grant Manager or the Executive Director.
- The Service Center did not adhere to its policy of requiring the Executive Director's approval of purchases. In 37 of 80 (46%) instances, purchase orders were approved by the Grant Manager but not by the Executive Director.
- The Service Center did not adhere to its policy of requiring the Grant Manager's approval of purchases. In 2 of 80 (3%) instances, purchase orders were approved by the Executive Director but not by the Grant Manager.
- The Service Center did not cancel invoices once paid. In 42 of 80 (53%) instances, invoices were not canceled once paid.

Corrective Action Plan:

The Service Center acknowledges that internal controls need to be strengthened in this area. Since the on-site portion of the June 30, 2012 audit was completed, new procedures have been implemented that assure that each purchase is preapproved, and that each purchase order has two signatures prior to payment. Invoices will also be canceled by stamping or writing "paid" on the face of the invoice.

The Service Center process utilizes a purchase order related to each invoice, which includes required signatures, appropriate coding, and other information. Once an invoice is paid, the check number and date are recorded on the purchase order, providing documentation that the invoice has been paid. The purchase order, invoice, and any other documentation is then filed with that month's check ledger.

Anticipated Date of Completion:

Immediately upon learning of oversight.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

INTERMEDIATE SERVICE CENTER NO. 2
Corrective Action Plan for Current Year Audit Findings
Year Ended June 30, 2012

Corrective Action Plan (Continued)

Finding No. 12-2 – Expenditure and Revenue Reports Do Not Agree to General Ledger

Condition:

A comparison of expenditure and revenue reports to Intermediate Service Center No. 2's general ledger revealed instances where the totals on the June 30, 2012 expenditure reports submitted to the Illinois State Board of Education did not agree with the Service Center's general ledger. In addition, the revenue reports showing funds dispersed by ISBE to the Service Center as of June 30, 2012 did not agree with the Service Center's general ledger. The following instances were noted:

- The expenditure report submitted to ISBE for the Technology for Success program (2012-3780-00) reported total expenditures of \$135,701, while the general ledger reported total expenditures of \$0.
- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Technology for Success program (2012-3780-00) reported total funds disbursed through June 30, 2012 of \$145,460, while the general ledger reported total funds received of \$0.
- The expenditure report submitted to ISBE for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total expenditures of \$26,664, while the general ledger reported total expenditures of \$0.
- The revenue detail report showing funds disbursed by ISBE to the Service Center for the Education Technology State Grants, Recovery Act (2012-4861-00) reported total funds disbursed through June 30, 2012 of \$26,664, while the general ledger reported total funds received of \$0.

Corrective Action Plan:

The Service Center became the Fiscal Agent for the Learning Technology Center (LTC) in 2011. This change caused LTC funds and the above mentioned grants to be handled by a new Township Treasurer (TTO). With the transition from one TTO to another, the LTC funds were transferred into a separate general ledger account, not an Intermediate Service Center No. 2 account. The separate general ledger transactions were managed by Service Center staff, with expenditure approval by the Executive Director and the Service Center Governing Board. The resignation of the Service Center's part time CPA at the end of the June 30, 2012 fiscal year left the agency without an experienced person on staff to reconcile accounts prior to the June 30, 2012 audit process.

Beginning with the June 30, 2013 audit, the Service Center hired a consulting CPA to reconcile ledgers, provide adjusted trial balances, and oversee the audit preparation process. The Service Center agrees with the above finding for the June 30, 2012 audit and anticipates that the services of the consulting CPA to support the audit preparation process, as well as improvements to internal accounting procedures, will eliminate such errors in the future.

INTERMEDIATE SERVICE CENTER NO. 2
Corrective Action Plan for Current Year Audit Findings
Year Ended June 30, 2012

Corrective Action Plan (Continued)

Finding No. 12-2 – Expenditure and Revenue Reports Do Not Agree to General Ledger (Continued)

Anticipated Date of Completion:

Immediately upon learning of oversight.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

INTERMEDIATE SERVICE CENTER NO. 2
Corrective Action Plan for Current Year Audit Findings
Year Ended June 30, 2012

Corrective Action Plan (Continued)

Finding No. 12-3 - Use of Designated Grant Balances

Condition:

Intermediate Service Center No. 2 pools program and local revenue into the same bank account. Cash that was granted to the Service Center, and designated for specific grant purposes, was used to cover deficit cash balances in programs other than those for which the cash was granted.

Corrective Action Plan:

The source of cash used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

FY 2012 saw a continuation of delinquent receipts of State grant funds as experienced in FY 2011. As in FY 2011, programs with a start date of July 1 required expenditures to be incurred without available state funds. Intermediate Service Center No. 2 was forced to use other available local funds, to the extent possible, to cover deficit cash balances in programs where funds were late in arriving. On a quarterly basis the State of Illinois was in arrears in its payments by these percentages: At the end of the 1st quarter of 2012 the Service Center received only 5.5% of its FY 2012 budgeted state dollars; at the end of the 2nd quarter only 25% was received; by the end of the 3rd quarter 55% was received; at the end of FY 2012 the Service Center received 84% of the total budgeted state dollars. The remaining 16% of the FY 12 funds were received during the 1st quarter of FY 2013.

Anticipated Date of Completion:

Immediately upon learning of oversight.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

INTERMEDIATE SERVICE CENTER NO. 2
Corrective Action Plan for Current Year Audit Findings
Year Ended June 30, 2012

Corrective Action Plan (Continued)

Finding No. 12-4 - Controls Over Financial Statement Preparation

Condition:

Intermediate Service Center No. 2 does not have sufficient internal controls over the financial reporting process. The Service Center maintains its accounting records on the cash basis of accounting. While the Service Center 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. For example, auditors, in their review of the Service Center's accounting records, noted that material adjusting entries were required to present the financial statements in accordance with generally accepted accounting principles.

Corrective Action Plan:

Intermediate Service Center No. 2 has secured the services of a consulting CPA to assist with audit preparation processes, beginning with June 30, 2013 audit.

Anticipated Date of Completion:

The Center will implement the corrective action plan immediately.

Name of Contact Person:

Linda Rogers, Business and Financial Analyst

INTERMEDIATE SERVICE CENTER NO. 2
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2012

| <u>Finding Number</u> | <u>Condition</u> | <u>Current Status</u> |
|-----------------------|--|-----------------------|
| 11-1 | Inadequate Documentation for Payroll Expenditures | Corrected |
| 11-2 | Use of Designated Grant Balances | Repeated |
| 11-3 | Controls Over Financial Statement Preparation | Repeated |

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management's Discussion and Analysis
Year Ended June 30, 2012

As management of Intermediate Service Center No. 2 ("the Center"), 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, 2012.

Management's Discussion and Analysis (MD&A) is an 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 (2012) and the prior year (2011) 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, 2012 and the results of operations for the year. This summary should not be taken as a replacement for the audit report, which consists of the financial statements, notes to the financial statements, required and other supplementary information.

Using This Financial Report

The financial section of this annual report consists of four parts – Independent Auditor's Reports, required supplementary information which includes the MD&A (this section), the basic financial statements, and other supplementary information. The basic financial statements include two kinds of statements that present different views of 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's Discussion and Analysis (Continued)
Year Ended June 30, 2012

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 various governmental funds. 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 these funds. More detail of the individual revenues and expenditures for these funds 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 General, Education, and Nonmajor Special Revenue Funds which is in compliance with GASB Statement No. 34.

Condensed Financial Information

Net assets are summarized in the table below.

| | <u>June 30, 2012</u> | <u>June 30, 2011</u> |
|---|----------------------|----------------------|
| Assets: | | |
| Current Assets | \$ 681,283 | \$ 689,845 |
| Non-current Assets: | | |
| Capital Assets | <u>181,808</u> | <u>252,245</u> |
| Total Assets | <u>863,091</u> | <u>942,090</u> |
| Liabilities: | | |
| Current Liabilities | 323,845 | 582,923 |
| Non-current Liabilities | <u>-0-</u> | <u>57,992</u> |
| Total Liabilities | <u>323,845</u> | <u>640,915</u> |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 123,815 | 133,920 |
| Unrestricted | (23,860) | (109,283) |
| Restricted for educational purposes | <u>439,291</u> | <u>276,538</u> |
| Total Net Assets | <u>\$ 539,246</u> | <u>\$ 301,175</u> |

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2012

Current assets consist of cash and investments and due from other governments.

Non-current liabilities consist of long-term debt. Current liabilities consist of accounts payable, accrued payroll liabilities, the current portion of long-term debt, accrued compensated absences, and deferred revenue.

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

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

Condensed Statement of Activities
For Fiscal Year Ending:

| | June 30, 2012 | June 30, 2011 |
|------------------------------------|----------------------|----------------------|
| Revenues received: | | |
| Program: | | |
| Operating grants and contributions | \$5,547,451 | \$4,614,359 |
| General: | | |
| Local sources | 1,178,040 | 456,643 |
| On-behalf payments | 206,185 | 155,176 |
| Interest | 1,046 | 8,432 |
| Total revenue received | <u>6,932,722</u> | <u>5,234,610</u> |
| Expenditures disbursed: | | |
| Instructional services: | | |
| Instruction | 196,493 | 201,443 |
| Supporting Services | 5,906,810 | 5,049,709 |
| Community Services | -0- | -0- |
| Nonprogrammed Charges | 385,163 | 146,700 |
| Administrative services: | | |
| On-behalf payments | <u>206,185</u> | <u>155,176</u> |
| Total expenditures disbursed | <u>6,694,651</u> | <u>5,553,028</u> |
| Change in net assets | 238,071 | (318,418) |
| Beginning net assets | <u>301,175</u> | <u>619,593</u> |
| Ending net assets | <u>\$ 539,246</u> | <u>\$ 301,175</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 \$6,694,651. Federal and State grants financed approximately five-sixths of this or \$5,547,451. Local sources, consisting of primarily tuition, were the next largest contributor with \$1,178,040.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management's Discussion and Analysis (Continued)
Year Ended June 30, 2012

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

General Fund revenues increased by \$161,629 from \$2,148,084 in FY 2011 to \$2,309,713 in FY 2012. This was mainly due to an increase in Local monies. General Fund's expenditures increased by \$288,097 from \$2,130,954 in FY 2011 to \$2,419,051 in FY 2012. Expenditures were higher in FY 2012 compared to FY 2011 due to an increase in support services expenditures. Education Fund revenues increased by \$831,004 from \$3,183,384 in FY 2011 to \$4,014,388 in FY 2012. Overall, revenue was higher due to an increase in federal grants. Expenditures increased by \$778,758 from \$3,182,212 in FY 2011 to \$3,960,970 in FY 2012. Salaries, employee benefits, purchased services, supplies and materials for support services increased compared to fiscal year ended June 30, 2011.

Nonmajor Special Revenue Fund revenues increased by \$79,796 from \$78,278 in FY 2011 to \$158,074 in FY 2012. Increase in revenues was related to increased fees collected for registration and renewal of teacher certificates. Expenditures increased by \$103,223 from \$142,017 in FY 2011 to \$245,240 in FY 2012. The expenditures increase is in line with the increased revenue the Center received from collection of fees related to the registration and renewal of teacher certificates.

Capital assets

The total amount invested in capital assets net of depreciation at June 30, 2012 by the Center was \$181,808. Detailed information for the Capital Assets can be found on pages 41-42 in Note 1h.

Long term debt

The total amount of long term debt at June 30, 2012 was \$57,993. Detailed information related to the long term debt can be found on page 49 in Note 8.

Net assets

During the year net assets increased \$238,071, due to the fact that revenue increased at a higher rate over expenses from a year ago. Total revenue for fiscal year ended June 30, 2011 was \$5,234,610 and increased by \$1,698,112 to \$6,932,722 for fiscal year ended June 30, 2012, primarily due to increased federal and state grant revenue for fiscal year ended June 30, 2012. Expenses increased by \$1,141,623 from \$5,553,028 in fiscal year ended June 30, 2011, to \$6,694,651 in fiscal year ended June 30, 2012.

Factors or Conditions Impacting Future Periods

At the time these financial statements were prepared and audited, the Center was aware of several existing circumstances that could affect its financial health in the future.

- The interest rate on investments remains low and will impact income.
- Several grants have decreased from previous levels or been eliminated.
- The State of Illinois funding for most programs has been delayed.

On the expenditure side, increased costs will force the Center to do more with less.

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 existing human resources.

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 needs additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 4413 Roosevelt Road, Suite 104, Hillside, IL 60162.

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Net Assets

June 30, 2012

| <u>ASSETS</u> | <u>Governmental Activities</u> |
|--|------------------------------------|
| Current assets: | |
| Cash and investments | \$ 100,400 |
| Due from other governments | 580,883 |
| Total current assets | <u>681,283</u> |
| Noncurrent assets: | |
| Capital Assets, being depreciated, net | <u>181,808</u> |
| Total assets | <u>863,091</u> |
| <u>LIABILITIES</u> | |
| Current Liabilities: | |
| Loan payable, current portion | 57,993 |
| Accounts payable | 210,915 |
| Deferred revenue | 13,179 |
| Accrued compensated absences | 13,629 |
| Accrued payroll liabilities | 28,129 |
| Total current liabilities | <u>323,845</u> |
| Total liabilities | <u>323,845</u> |
| <u>NET ASSETS</u> | |
| Invested capital assets, net of related debt | 123,815 |
| Unrestricted | (23,860) |
| Restricted for educational purposes | 439,291 |
| Total net assets | <u>\$ 539,246</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, 2012

| | Expenses | Program Revenues Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets Primary Government Governmental Activities |
|-------------------------------|--------------|---|---|
| FUNCTIONS/PROGRAMS | | | |
| Primary government: | | | |
| Governmental activities: | | | |
| Instructional services: | | | |
| Instruction | \$ 196,493 | \$ 162,066 | \$ (34,427) |
| Supporting services | 5,906,810 | 5,208,742 | (698,068) |
| Community services | -0- | 1,260 | 1,260 |
| Nonprogrammed charges | 385,163 | 175,383 | (209,780) |
| Administrative: | | | |
| On-behalf payments | 206,185 | -0- | (206,185) |
| Total governmental activities | \$ 6,694,651 | \$ 5,547,451 | (1,147,200) |
| General revenues: | | | |
| Local sources | | | 1,178,040 |
| On-behalf payments | | | 206,185 |
| Interest | | | 1,046 |
| Total general revenues | | | 1,385,271 |
| Change in net assets | | | 238,071 |
| Net assets - beginning | | | 301,175 |
| Net assets - ending | | | \$ 539,246 |

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

INTERMEDIATE SERVICE CENTER NO. 2

Balance Sheet Governmental Funds

June 30, 2012

| <u>ASSETS</u> | <u>General Fund</u> | <u>Education Fund</u> | <u>Nonmajor Special Revenue Funds</u> | <u>Total Governmental Funds</u> |
|---------------------------------------|-------------------------|---------------------------|---|---|
| Cash - Imprest fund | \$ 3,022 | \$ -0- | \$ -0- | \$ 3,022 |
| Equity in pooled cash and investments | 152,187 | 75,477 | -0- | 227,664 |
| Due from other governments | 125,172 | 455,711 | -0- | 580,883 |
| Total assets | <u>\$ 280,381</u> | <u>\$ 531,188</u> | <u>\$ -0-</u> | <u>\$ 811,569</u> |
| <u>LIABILITIES</u> | | | | |
| Cash overdraft | \$ -0- | \$ -0- | \$ 130,286 | \$ 130,286 |
| Accounts payable | 43,324 | 145,385 | 22,206 | 210,915 |
| Accrued payroll liabilities | 28,102 | 27 | -0- | 28,129 |
| Deferred revenue | -0- | 298,433 | -0- | 298,433 |
| Total liabilities | <u>71,426</u> | <u>443,845</u> | <u>152,492</u> | <u>667,763</u> |
| <u>FUND BALANCE</u> | | | | |
| Restricted | 219,185 | 87,343 | -0- | 306,528 |
| Assigned | -0- | -0- | -0- | -0- |
| Unassigned | (10,230) | -0- | (152,492) | (162,722) |
| Total fund balance | <u>208,955</u> | <u>87,343</u> | <u>(152,492)</u> | <u>143,806</u> |
| Total liabilities and fund balance | <u>\$ 280,381</u> | <u>\$ 531,188</u> | <u>\$ -0-</u> | <u>\$ 811,569</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
Governmental Funds
June 30, 2012

| | | |
|---|----|-----------------------|
| Total fund balance - governmental funds | \$ | 143,806 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p> | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.</p> | | 181,808 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | 285,254 |
| <p>Compensated absences are not due and payable in the current period and therefore, are not reported as liabilities in the funds.</p> | | (13,629) |
| <p>Long-term liabilities incurred from governmental activities are not financial outsources and therefore, are not reported in the funds.</p> | | (57,993) |
| | | <hr/> |
| Net assets of governmental activities | \$ | <u><u>539,246</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, 2012

| | <u>General Fund</u> | <u>Education Fund</u> | <u>Nonmajor Special Revenue Funds</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---------------------------|---|---|
| <u>REVENUES</u> | | | | |
| Local Sources | \$ 659,694 | \$ 360,272 | \$ 158,074 | \$ 1,178,040 |
| State Sources | 1,650,019 | 339,066 | -0- | 1,989,085 |
| Federal Sources | -0- | 3,315,050 | -0- | 3,315,050 |
| Total Direct Revenues | <u>2,309,713</u> | <u>4,014,388</u> | <u>158,074</u> | <u>6,482,175</u> |
| On-behalf Payments | <u>206,185</u> | <u>-0-</u> | <u>-0-</u> | <u>206,185</u> |
| Total Revenues | <u>2,515,898</u> | <u>4,014,388</u> | <u>158,074</u> | <u>6,688,360</u> |
| <u>EXPENDITURES</u> | | | | |
| Instruction | 186,580 | 10,960 | -0- | 197,540 |
| Support Services | 1,900,861 | 3,690,272 | 245,240 | 5,836,373 |
| Community Services | -0- | -0- | -0- | -0- |
| Nonprogrammed Charges | <u>125,425</u> | <u>259,738</u> | <u>-0-</u> | <u>385,163</u> |
| Total Direct Expenditures | <u>2,212,866</u> | <u>3,960,970</u> | <u>245,240</u> | <u>6,419,076</u> |
| On-behalf Payments | <u>206,185</u> | <u>-0-</u> | <u>-0-</u> | <u>206,185</u> |
| Total Expenditures | <u>2,419,051</u> | <u>3,960,970</u> | <u>245,240</u> | <u>6,625,261</u> |
| <u>OTHER FINANCING SOURCES/(USES)</u> | | | | |
| Loan Payments-principal | (60,333) | -0- | -0- | (60,333) |
| Interest | <u>1,046</u> | <u>-0-</u> | <u>-0-</u> | <u>1,046</u> |
| Total other financing sources/(uses) | (59,287) | -0- | -0- | (59,287) |
| Net Change in Fund Balance | 37,560 | 53,418 | (87,166) | 3,812 |
| Fund Balance, July 1, 2011 | <u>171,395</u> | <u>33,925</u> | <u>(65,326)</u> | <u>139,994</u> |
| Fund Balance, June 30, 2012 | <u>\$ 208,955</u> | <u>\$ 87,343</u> | <u>\$ (152,492)</u> | <u>\$ 143,806</u> |

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

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, 2012

| | | |
|---|-----------------|----------------|
| Net change in fund balances | \$ | 3,812 |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> | | |
| <p>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.</p> | | |
| Capital outlay | \$ 13,349 | |
| Depreciation expense | <u>(83,786)</u> | |
| Net adjustment | | (70,437) |
| <p>The issuance of long-term debt provides current financial resources to governmental funds while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.</p> | | |
| Issuance of long-term debt | -0- | |
| Principal payments | <u>60,333</u> | |
| | | 60,333 |
| <p>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</p> | | |
| | | (41,937) |
| <p>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</p> | | |
| | | 1,046 |
| <p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds</p> | | |
| | | <u>285,254</u> |
| Change in net assets of governmental activities | <u>\$</u> | <u>238,071</u> |

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

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.

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, 2012

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. 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 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.

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 Center's total investment in capital assets. The outstanding debt related to these assets was \$57,993 at June 30, 2012.

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Restricted Net Assets – Consists of net assets with constraints placed on their use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.

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

C. 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.

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 liabilities 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 assets that are 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.

Restricted Fund Balance – the portion of a Governmental Fund's net assets that are subject to external enforceable legal restrictions. The following account fund balances are restricted by grant agreements or contracts: Response to Intervention, West Cook Math Initiative, Regional Safe Schools, State Free Lunch and Breakfast, Preschool, ISC Operations, Beginning Teacher Induction Pilot Program, Technology for Success, Learn and Serve America, ARRA Education Jobs Fund, School Breakfast Program, National School Lunch Program, Title I - School Improvement and Accountability, McKinney Education for Homeless Children, High School Graduation Initiative, ARRA Education Technology State Grants, Recovery Act, 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 assets 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 assets 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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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 the General State Aid, tuition monies for teachers, and administrator workshops 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.

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.

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.

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.

Preschool: Used to account for reimbursement of personnel who evaluate pre-schools that receive funds from the universal pre-school program initiated in 2007 by the Governor's office.

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

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Beginning Teacher Induction Program: Provides induction and mentoring programs for new teachers in school districts across the State.

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.

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

ARRA Education Jobs Fund: The objective of this program is to assist local educational agencies (LEAs) in saving or creating education jobs for school year 2011-2012.

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.

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.

ARRA Education Technology State Grants, Recovery Act: Provide an unprecedented opportunity for State educational agencies (SEAs), eligible local educational agencies (LEAs), eligible local entities, and schools to implement 21st century classrooms using innovative strategies that enhance instruction, facilitate teaching and learning, and improve student achievement.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Nonmajor Special Revenue Funds: Institute Funds are used to account for and report the proceeds of specific revenue sources (other than fiduciary or major capital projects) that are restricted to expenditures for specified purposes. This fund includes the following:

Institute: Accounts for fees collected for the registration and renewal of teaching certificates. 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.

D. 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. Revenues received more than 60 days after the end of the current period are deferred in the governmental fund financial statements, but are recognized as current revenues in the government-wide financial statements.

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.

E. Estimates

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

F. 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, 2012 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, along with the budgets for the local revenue and expenditures were used to prepare the Budgetary Comparison Schedule of the Education Fund.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

F. Budgets and Budgetary Accounting (Continued):

Federal grants administered that have budgets are as follows: Learn and Serve America, ARRA Education Jobs Fund, School Breakfast Program, National School Lunch Program, Title I – School Improvement and Accountability, McKinney Education for Homeless Children, High School Graduation Initiative, and Education Technology State Grants, Recovery Act.

State grants administered that have budgets are as follows: General State Aid, Regional Safe Schools Program, Preschool, Intermediate Service Center Operations, Beginning Teacher Induction Pilot Program, and Technology for Success. Local sources administered that have budgets are as follows: Services provided to other LEA's, Response to Intervention, West Cook Math Initiative, and Institute.

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 \$1,046 in interest was credited to Intermediate Service Center No. 2.

| | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|---|----------------------------|-------------------------|
| Cash deposits in custody of Center | \$ 3,022 | \$ 3,022 |
| Equity in pooled cash and investments of Lyons Township School Treasurer | \$ 97,378 | \$ 97,378 |

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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Credit Risk. State law limits investments in commercial paper, corporate bonds and mutual funds to the top two ratings issued by nationally recognized rating organizations (NRSRO's).

The Treasurer's investment policy further minimizes credit risk by pre-qualifying the financial institutions, brokers, dealers, intermediaries, and advisors with which the Treasurer does business. Allowable investments include the following:

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

As of June 30, 2012, 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. 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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

H. Capital Assets (Continued):

The governmental activities capital asset activity for the year ended June 30, 2012 is as follows:

| | <u>Balance</u> <u>July 1, 2011</u> | <u>Additions</u> | <u>Retirements</u> | <u>Balance</u> <u>June 30, 2012</u> |
|------------------------------------|---------------------------------------|--------------------|--------------------|--|
| Cost: | | | | |
| Equipment & Leasehold Improvements | \$1,220,974 | \$ 13,349 | \$ -0- | \$ 1,234,323 |
| Accumulated Depreciation: | | | | |
| Equipment | <u>\$ 968,729</u> | <u>\$ 83,786</u> | <u>\$ -0-</u> | <u>\$ 1,052,515</u> |
| Total Capital Assets, Net: | | | | |
| Equipment | <u>\$ 252,245</u> | <u>\$ (70,437)</u> | <u>\$ -0-</u> | <u>\$ 181,808</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|---------------------|------------------|
| Supporting Services | <u>\$ 83,786</u> |
|---------------------|------------------|

I. Compensated Absences:

Intermediate Service Center No. 2's full time staff members working on a 12 month position shall receive 20 days of vacation per year immediately upon hire. Vacation time for part-time employees is earned throughout the year on a prorated basis. 10 month employees are not entitled to earn vacation time. Vacation 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, 2012, the Executive Director granted a total of 68 days or \$13,629 in vacation accruals and thus, a liability has been accrued.

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.

3. RETIREMENT FUND COMMITMENTS:

A. 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

June 30, 2012

3. RETIREMENT FUND COMMITMENTS (Continued):

A. 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 certification is required. The active member contribution rate for the year ended June 30, 2012, 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, 2011 and 2010.

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, 2012, State of Illinois contributions were based on 24.91 percent of creditable earnings not paid from federal funds, and the Center recognized revenue and expenditures of \$199,150 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2011 and June 30, 2010, the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 23.10 percent (\$149,481) and 23.38 percent (\$153,473), 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, 2012 were \$7,660. Contributions for the years ending June 30, 2011 and June 30, 2010, were \$5,291 and \$5,809, 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 was first effective for 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. For the year ended June 30, 2012, the employer pension contribution was 24.91 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2011 and 2010, the employer contribution was 23.10 and 23.38 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2012, salaries totaling \$521,222 were paid from federal and special trust funds that required employer contributions of \$129,836. For the years ended June 30, 2011 and June 30, 2010, required Center contributions were \$61,235 and \$80,692, respectively.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

3. RETIREMENT FUND COMMITMENTS (Continued):

A. 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 117.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2012, the Center paid \$-0- to TRS for employer contributions under the ERO program. For the years ended June 30, 2011 and June 30, 2010, the Center paid \$-0- and \$-0- in employer ERO contributions, respectively.
- *Salary increased 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, 2012, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent. For the years ended June 30, 2011 and June 30, 2010, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent, 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 (17.83 percent of salary during the year ended June 30, 2012).

For the year ended June 30, 2012, the Center paid \$-0- to TRS for sick leave days granted in excess of the normal annual allotment. For the year ended June 30, 2011 and June 30, 2010, the Center paid \$-0- in employer contributions granted for sick leave days, respectively.

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, 2012. 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, Illinois 62794-9253. The most current report is also available on the TRS web site at <http://trs.illinois.gov>.

B. Illinois Municipal Retirement Fund:

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

3. RETIREMENT FUND COMMITMENTS (Continued):

B. Illinois Municipal Retirement Fund (Continued):

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

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

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

However, during the year, Intermediate Service Center No. 2 paid to the School Districts, as their share of the cost for participating employees, the sum of \$287,462.

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 \$128,864, the total required contribution for the current fiscal year.

D. Teacher Health Insurance Security Fund:

Intermediate Service Center No. 2 participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multi-employer defined benefit postemployment healthcare plan that was established by the Illinois legislature for the benefit of 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 may participate in the state administered participating provider option plan or choose from several managed care options.

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

3. RETIREMENT FUND COMMITMENTS (Continued):

D. Teacher Health Insurance Security Fund (Continued):

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 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 THIS Fund from active members which were 0.88 percent of pay during the year ended June 30, 2012. State of Illinois contributions were \$7,035, 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, 2011 and June 30, 2010 were 0.88 percent and 0.84 percent of pay, respectively. State contributions on behalf of Intermediate Service Center No. 2's employees were \$5,695 and \$5,514, respectively.

Employer Contributions to THIS Fund

Intermediate Service Center No. 2 also makes contributions to THIS Fund. The Center THIS Fund contribution was 0.66 percent during the years ended June 30, 2012 and June 30, 2011, and 0.63 percent during the year ended June 30, 2010. For the year ended June 30, 2012, Intermediate Service Center No. 2 paid \$8,717 to the THIS Fund. For the years ended June 30, 2011 and June 30, 2010, the Center paid \$4,271 and \$4,135 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 obtained by writing to the Department of Healthcare and Family Services, 201 S. Grand Ave., Springfield, IL 62763-3838.

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 | \$ 199,150 |
| Teachers' Health Insurance Security | <u>7,035</u> |
| | <u>\$ 206,185</u> |

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

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

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 | \$ 417,024 |
| Regional Safe Schools Programs | 125,172 |
| Learn and Serve America | 8,673 |
| High School Graduation Initiative | <u>30,014</u> |
| | <u>\$ 580,883</u> |

Included in accounts payable is \$44,104 due to Intermediate Service Center No. 4 for expenses paid on behalf of Intermediate Service Center No. 2 related to the Health and Life Safety program.

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, 2012:

| | |
|--|------------------|
| McKinney Education for Homeless Children | \$ 3,420 |
| Technology for Success | <u>9,759</u> |
| | <u>\$ 13,179</u> |

7. NON-CANCELABLE OPERATING LEASES:

Lease Commitment – Oak Park:

On October 17, 2006 a new lease agreement was entered into for property located in Oak Park, Illinois. Effective September 19, 2011 this lease was renewed for an additional eight months ending on June 30, 2012. The lease required the following rental terms:

| | |
|---|--------------------|
| November 1, 2006 through October 31, 2007 | \$14,026 per month |
| November 1, 2007 through October 31, 2008 | \$14,517 per month |
| November 1, 2008 through October 31, 2009 | \$15,025 per month |
| November 1, 2009 through October 31, 2010 | \$15,551 per month |
| November 1, 2010 through October 31, 2011 | \$16,095 per month |
| November 1, 2011 through June 30, 2012 | \$16,095 per month |

The lease carried no restrictions on the financial operating policies of the Center. This lease was not renewed.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

7. NON-CANCELABLE OPERATING LEASES (Continued):

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.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2012 are as follows:

| | |
|----------------|------------------|
| Year Ended | |
| <u>June 30</u> | |
| 2013 | \$ 63,315 |
| 2014 | <u>5,293</u> |
| | <u>\$ 68,608</u> |

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.

Minimum future rental payments under the non-cancelable lease which has a term in excess of 1 year as of June 30, 2012 for each of the next two years are as follows:

| | |
|----------------|------------------|
| Year Ended | |
| <u>June 30</u> | |
| 2013 | \$120,000 |
| 2014 | <u>40,000</u> |
| | <u>\$160,000</u> |

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

8. LONG-TERM DEBT:

During the fiscal year ended June 30, 2009, the Center borrowed \$233,026 from a local bank. The purpose of this loan was for building improvements to the Administrative Office located in Bellwood, Illinois. During the fiscal year ended June 30, 2010, an additional \$4,306 was advanced on this note and the maturity date was extended an additional month.

| | |
|---|------------------|
| Local bank, | |
| Interest at 6.0%, four year term, | |
| due in monthly installments of \$5,483, | |
| due June 1, 2013 | <u>\$ 57,993</u> |

Interest expense of \$5,458 from this loan is included in purchased services.

Future minimum loan payments and scheduled interest due under the loan are as follows:

| Fiscal Year | <u>Principal</u> | <u>Interest</u> |
|--------------|------------------|-----------------|
| <u>Ended</u> | | |
| 2013 | <u>\$ 57,993</u> | <u>\$ 1,740</u> |

9. NEW ACCOUNTING PRONOUNCEMENTS:

Effective for the year ending June 30, 2012, the Center adopted GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, as its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements. There was no significant impact on the Center's financial statements as a result of adopting this statement.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2012

9. NEW ACCOUNTING PRONOUNCEMENTS (Continued):

Effective for the year ending June 30, 2012, the Center adopted GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions- an amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. In addition, it sets forth the criterion that establishes when the effective hedging relationship continues and hedge accounting should continue to be applied. There was no significant impact on the Center's financial statements as a result of adopting this statement.

10. OTHER REQUIRED FUND DISCLOSURES:

Deficit fund balances at June 30, 2012 are as follows:

| | |
|-------------------------------|-----------|
| Nonmajor Special Revenue Fund | \$152,492 |
|-------------------------------|-----------|

The deficit fund balance is due to the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which require that grant revenue can only be recognized when collected during the fiscal year or collected soon after the end of the fiscal year to be available to pay the liabilities of the current fiscal period. It is expected that this deficit will continue into the future.

11. SUBSEQUENT EVENTS:

On February 26, 2013 the Center leased a commercial building for its main offices. The sixty month lease beginning on June 1, 2013 provides for the lease by the Center of approximately 7,500 square feet of space in Hillside, Illinois. Base annual rent is initially set at \$7,500 per month with a 3% annual increase beginning on July 1, 2014. 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.

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.

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.

Management has evaluated subsequent events through March 19, 2014, the date on which the financial statements were available to be issued.

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

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2012

| <u>REVENUES</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-------------------------------|------------------|------------------|---|
| Local Sources | | | |
| Services Provided Other LEA's | \$ 1,053,750 | \$ 659,694 | \$ (394,056) |
| Total Local Sources | <u>1,053,750</u> | <u>659,694</u> | <u>(394,056)</u> |
| State Sources | | | |
| General State Aid | 646,885 | 1,231,285 | 584,400 |
| Regional Safe Schools Program | <u>376,797</u> | <u>418,734</u> | <u>41,937</u> |
| Total State Sources | <u>1,023,682</u> | <u>1,650,019</u> | <u>626,337</u> |
| Total Direct Revenues | <u>2,077,432</u> | <u>2,309,713</u> | <u>232,281</u> |
| On-behalf Payments | <u>-0-</u> | <u>206,185</u> | <u>206,185</u> |
| Total Revenues | <u>2,077,432</u> | <u>2,515,898</u> | <u>438,466</u> |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

General Fund (Continued)

Year Ended June 30, 2012

| <u>EXPENDITURES</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-------------------------------------|------------------|------------------|---|
| Instruction | | | |
| Salaries | 128,989 | 154,384 | (25,395) |
| Employee Benefits | 16,565 | 19,618 | (3,053) |
| Purchased Services | -0- | 7,422 | (7,422) |
| Supplies and Materials | 4,000 | 5,156 | (1,156) |
| Capital Outlay | -0- | -0- | -0- |
| Total Instruction | <u>149,554</u> | <u>186,580</u> | <u>(37,026)</u> |
| Support Services | | | |
| Pupils | | | |
| Attendance and Social Work Services | | | |
| Employee Benefits | -0- | (1) | 1 |
| Purchased Services | 1,500 | 1,227 | 273 |
| Total Pupils | <u>1,500</u> | <u>1,226</u> | <u>274</u> |
| Instructional Staff | | | |
| Improvement of Instruction Services | | | |
| Salaries | 685,000 | 744,540 | (59,540) |
| Employee Benefits | 171,750 | 149,904 | 21,846 |
| Purchased Services | 732,965 | 595,868 | 137,097 |
| Supplies and Materials | 122,267 | 169,409 | (47,142) |
| Capital Outlay | -0- | 200 | (200) |
| Other Objects | 11,300 | 6,423 | 4,877 |
| Non-Capitalized Equipment | -0- | -0- | -0- |
| Total Instructional Staff | <u>1,723,282</u> | <u>1,666,344</u> | <u>56,938</u> |
| General Administration | | | |
| Board of Education Services | | | |
| Salaries | 9,339 | 9,812 | (473) |
| Employee Benefits | 2,954 | 16,724 | (13,770) |
| Purchased Services | 3,000 | 4,000 | (1,000) |
| Office of Principal Services | | | |
| Salaries | 184,038 | 184,038 | -0- |
| Employee Benefits | 12,930 | 12,892 | 38 |
| Total General Administration | <u>212,261</u> | <u>227,466</u> | <u>(15,205)</u> |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

General Fund (Continued)

Year Ended June 30, 2012

| <u>EXPENDITURES</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|---------------------|-------------------|---|
| Business | | | |
| Fiscal Services | | | |
| Salaries | 4,632 | 4,632 | -0- |
| Employee Benefits | 883 | 1,193 | (310) |
| Total Business | 5,515 | 5,825 | (310) |
| Other Support Services | | | |
| Employee Benefits | -0- | -0- | -0- |
| Supplies and Materials | -0- | -0- | -0- |
| Total Other Support Services | -0- | -0- | -0- |
| Total Support Services | 1,942,558 | 1,900,861 | 41,697 |
| Nonprogrammed Charges | | | |
| Other Payments to In-State Government Units | | | |
| Purchased Services | -0- | -0- | -0- |
| Other Objects | -0- | -0- | -0- |
| Non-Capitalized Equipment | 125,425 | 125,425 | -0- |
| Total Nonprogrammed Charges | 125,425 | 125,425 | -0- |
| Total Direct Expenditures | 2,217,537 | 2,212,866 | 4,671 |
| On-behalf Payments | -0- | 206,185 | (206,185) |
| Total Expenditures | 2,217,537 | 2,419,051 | (201,514) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>\$ (140,105)</u> | 96,847 | <u>\$ 236,952</u> |
| <u>OTHER FINANCING SOURCES/(USES)</u> | | | |
| Loan Payments-principal | | \$ (60,333) | |
| Interest | | 1,046 | |
| Total other financing sources (uses) | | (59,287) | |
| Net change in fund balances | | 37,560 | |
| Fund Balance, July 1, 2011 | | 171,395 | |
| Fund Balance, June 30, 2012 | | <u>\$ 208,955</u> | |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund

Year Ended June 30, 2012

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|------------------|------------------|---|
| <u>REVENUES</u> | | | |
| Local Sources | | | |
| Response to Intervention | \$ 12,555 | \$ 140,711 | \$ 128,156 |
| West Cook Math Initiative | 218,750 | 219,561 | 811 |
| Total Local Sources | <u>231,305</u> | <u>360,272</u> | <u>128,967</u> |
| State Sources | | | |
| State Free Lunch and Breakfast | -0- | 427 | 427 |
| Preschool | 19,790 | 19,790 | -0- |
| I.S.C. Operations | 178,184 | 178,184 | -0- |
| Beginning Teacher Induction Pilot Program | 53,426 | 4,964 | (48,462) |
| Technology for Success | 200,000 | 135,701 | (64,299) |
| Total State Sources | <u>451,400</u> | <u>339,066</u> | <u>(112,334)</u> |
| Federal Sources | | | |
| Learn and Serve America | 12,543 | 9,308 | (3,235) |
| ARRA Education Jobs Fund | 64,591 | 971 | (63,620) |
| School Breakfast Program | 3,000 | 4,997 | 1,997 |
| National School Lunch Program | 3,000 | 7,741 | 4,741 |
| Title I - School Improvement and Accountability | 1,458,116 | 1,502,162 | 44,046 |
| McKinney Education for Homeless Children | 90,000 | 88,597 | (1,403) |
| High School Graduation Initiative | 1,710,233 | 1,674,610 | (35,623) |
| ARRA Education Technology State Grants, Recovery Act | 26,664 | 26,664 | -0- |
| Total Federal Sources | <u>3,368,147</u> | <u>3,315,050</u> | <u>(53,097)</u> |
| Total Direct Revenues | <u>4,050,852</u> | <u>4,014,388</u> | <u>(36,464)</u> |
| On-behalf Payments | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Revenues | <u>4,050,852</u> | <u>4,014,388</u> | <u>(36,464)</u> |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2012

| <u>EXPENDITURES</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-------------------------------------|------------------|------------------|---|
| Instruction | | | |
| Salaries | 3,500 | 2,646 | 854 |
| Employee Benefits | 875 | 447 | 428 |
| Purchased Services | 11,418 | 5,120 | 6,298 |
| Supplies and Materials | -0- | 2,747 | (2,747) |
| Total Instruction | <u>15,793</u> | <u>10,960</u> | <u>4,833</u> |
| Support Services | | | |
| Pupils | | | |
| Attendance and Social Work Services | | | |
| Salaries | -0- | -0- | -0- |
| Employee Benefits | -0- | -0- | -0- |
| Purchased Services | 74,280 | 71,449 | 2,831 |
| Supplies and Materials | 2,000 | 975 | 1,025 |
| Capital Outlay | -0- | -0- | -0- |
| Total Pupils | <u>76,280</u> | <u>72,424</u> | <u>3,856</u> |
| Instructional Staff | | | |
| Improvement of Instruction Services | | | |
| Salaries | 1,917,907 | 1,816,408 | 101,499 |
| Employee Benefits | 612,980 | 543,183 | 69,797 |
| Purchased Services | 688,090 | 852,033 | (163,943) |
| Supplies and Materials | 217,898 | 120,798 | 97,100 |
| Capital Outlay | 33,374 | 23,080 | 10,294 |
| Other Objects | -0- | -0- | -0- |
| Non-Capitalized Equipment | -0- | -0- | -0- |
| Educational Media Services | | | |
| Supplies and Materials | 61,041 | -0- | 61,041 |
| Total Instructional Staff | <u>3,531,290</u> | <u>3,355,502</u> | <u>175,788</u> |
| General Administration | | | |
| Board of Education Services | | | |
| Salaries | 147,701 | 56,794 | 90,907 |
| Employee Benefits | 19,473 | 11,349 | 8,124 |
| Purchased Services | 15,985 | 3,782 | 12,203 |
| Supplies and Materials | 1,000 | 333 | 667 |
| Total General Administration | <u>184,159</u> | <u>72,258</u> | <u>111,901</u> |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Education Fund (Continued)

Year Ended June 30, 2012

| <u>EXPENDITURES</u> | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|--------------------|------------------|---|
| Business | | | |
| Fiscal Services | | | |
| Salaries | 42,305 | 43,199 | (894) |
| Employee Benefits | 10,808 | 10,779 | 29 |
| Purchased Services | -0- | -0- | -0- |
| Pupil Transportation | | | |
| Purchased Services | 1,620 | 1,477 | 143 |
| Information Services | | | |
| Purchased Services | -0- | -0- | -0- |
| Supplies and Materials | 250 | 250 | -0- |
| Total Business | <u>54,983</u> | <u>55,705</u> | <u>(722)</u> |
| Other Support Services | | | |
| Salaries | -0- | 51,793 | (51,793) |
| Employee Benefits | -0- | 11,953 | (11,953) |
| Purchased Services | 34,003 | 64,943 | (30,940) |
| Supplies and Materials | -0- | 1,794 | (1,794) |
| Other Objects | -0- | 3,900 | (3,900) |
| Total Other Support Services | <u>34,003</u> | <u>134,383</u> | <u>(100,380)</u> |
| Total Support Services | <u>3,880,715</u> | <u>3,690,272</u> | <u>190,443</u> |
| Community Services | | | |
| Purchased Services | <u>800</u> | <u>-0-</u> | <u>800</u> |
| Nonprogrammed Charges | | | |
| Other Payments to In-State Government Units | | | |
| Purchased Services | <u>210,198</u> | <u>259,738</u> | <u>(49,540)</u> |
| Total Direct Expenditures | <u>4,107,506</u> | <u>3,960,970</u> | <u>146,536</u> |
| On-behalf Payments | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Expenditures | <u>4,107,506</u> | <u>3,960,970</u> | <u>146,536</u> |
| Net change in fund balances | <u>\$ (56,654)</u> | 53,418 | <u>\$ 110,072</u> |
| Fund Balance, July 1, 2011 | | <u>33,925</u> | |
| Fund Balance, June 30, 2012 | | <u>\$ 87,343</u> | |

INTERMEDIATE SERVICE CENTER NO. 2

Budgetary Comparison Schedule

Nonmajor Special Revenue Fund

Year Ended June 30, 2012

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|-------------------------------------|--------------------|---------------------|---|
| <u>REVENUES</u> | | | |
| Local Sources | | | |
| Institute | <u>\$ 174,500</u> | <u>\$ 158,074</u> | <u>\$ (16,426)</u> |
| Total Local Sources | <u>174,500</u> | <u>158,074</u> | <u>(16,426)</u> |
| Total Direct Revenues | <u>174,500</u> | <u>158,074</u> | <u>(16,426)</u> |
| On-behalf Payments | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Revenues | <u>174,500</u> | <u>158,074</u> | <u>(16,426)</u> |
| <u>EXPENDITURES</u> | | | |
| Support Services | | | |
| Instructional Staff | | | |
| Improvement of Instruction Services | | | |
| Salaries | 130,000 | 126,319 | 3,681 |
| Employee Benefits | 36,100 | 38,077 | (1,977) |
| Purchased Services | 42,400 | 7,303 | 35,097 |
| Supplies and Materials | 1,000 | 2,166 | (1,166) |
| Non-Capitalized Equipment | <u>45,000</u> | <u>71,100</u> | <u>(26,100)</u> |
| Total Instructional Staff | <u>254,500</u> | <u>244,965</u> | <u>9,535</u> |
| General Administration | | | |
| Board of Education Services | | | |
| Purchased Services | -0- | 180 | (180) |
| Supplies and Materials | <u>-0-</u> | <u>95</u> | <u>(95)</u> |
| Total General Administration | <u>-0-</u> | <u>275</u> | <u>(275)</u> |
| Total Support Services | <u>254,500</u> | <u>245,240</u> | <u>9,260</u> |
| Total Direct Expenditures | <u>254,500</u> | <u>245,240</u> | <u>9,260</u> |
| On-behalf Payments | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| Total Expenditures | <u>254,500</u> | <u>245,240</u> | <u>9,260</u> |
| Net change in fund balances | <u>\$ (80,000)</u> | (87,166) | <u>\$ (7,166)</u> |
| Fund Balance, July 1, 2011 | | <u>(65,326)</u> | |
| Fund Balance, June 30, 2012 | | <u>\$ (152,492)</u> | |

FEDERAL COMPLIANCE SECTION

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2012

| Federal Grantor/ Program or Cluster Title | CFDA Number (A) | Project # or Contract # (B) | Expenditures | |
|---|-----------------------|-----------------------------------|---------------------------|---------------------------|
| | | | 7/01/10 - 06/30/11 (C) | 7/01/11 - 06/30/12 (D) |
| U.S. Dept. of Education | | | | |
| High School Graduation Initiative (M) | 84.360 | 12-S360A100058 | \$ -0- | \$ 1,270,916 |
| High School Graduation Initiative (M) | 84.360 | 11-S360A100058 | 577,691 | 433,708 |
| | | | 577,691 | 1,704,624 |
| U.S. Dept. of Education passed through Illinois State Board of Education (ISBE): | | | | |
| Title I - Part A Cluster | | | | |
| ARRA Title I Grants to Local Educational Agencies, Recovery Act | 84.389 | 11-4854-00 | 400,000 | -0- |
| Title I - School Improvement & Accountability (M) | 84.010A | 12-4331-SS | -0- | 1,348,742 |
| Title I - School Improvement & Accountability (M) | 84.010A | 11-4331-SS | 939,316 | 401,452 |
| Total Title I - Part A Cluster | | | 1,339,316 | 1,750,194 |
| ARRA Education Technology State Grants, Recovery Act | 84.386 | 12-4861-00 | -0- | 26,664 |
| ARRA Education Jobs Fund | 84.410 | 12-4880-93 | -0- | 971 |
| ARRA Education Jobs Fund | 84.410 | 11-4880-93 | 64,591 | -0- |
| | | | 64,591 | 971 |
| U.S. Dept. of Education passed through Will County Regional Office of Education No. 56: | | | | |
| McKinney Education for Homeless Children | 84.196A | 12-4920-02 | -0- | 86,580 |
| McKinney Education for Homeless Children | 84.196A | 11-4920-00 | 83,483 | 2,017 |
| | | | 83,483 | 88,597 |
| U.S. Dept. of Agriculture passed through Illinois State Board of Education (ISBE): | | | | |
| Child Nutrition Cluster | | | | |
| School Breakfast Program | 10.553 | 12-4220-00 | -0- | 4,535 |
| School Breakfast Program | 10.553 | 11-4220-00 | 4,360 | 462 |
| National School Lunch Program | 10.555 | 12-4210-00 | -0- | 7,029 |
| National School Lunch Program | 10.555 | 11-4210-00 | 6,758 | 712 |
| Total Child Nutrition Cluster | | | 11,118 | 12,738 |
| Corporation for National and Community Services passed through Illinois State Board of Education (ISBE): | | | | |
| Learn and Serve America | 94.004 | 12-4910-00 | -0- | 12,543 |
| Learn and Serve America | 94.004 | 11-4910-00 | 8,527 | 3,973 |
| | | | 8,527 | 16,516 |
| Total Expenditures of Federal Awards | | | \$ 2,084,726 | \$ 3,600,304 |

(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, 2012

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 as follows:

| PROGRAM TITLE | FEDERAL CFDA # | AMOUNT PROVIDED TO SUBRECIPIENTS |
|--|----------------|----------------------------------|
| ARRA Education Technology State Grants, Recovery Act | 84.386 | \$26,664 |

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.

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.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2012

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.

4. NONCASH ASSISTANCE:

-NONE-

5. LOAN AND LOAN GUARANTEES OUTSTANDING:

-NONE-

6. INSURANCE:

-NONE-