

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, 2010

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

INTERMEDIATE SERVICE CENTER NO. 2
TABLE OF CONTENTS

	<u>Page Numbers</u>
OFFICIALS	1
Compliance Report Summary	2
Financial Statement Report Summary	3
INDEPENDENT AUDITORS' REPORT	4 – 5
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 <i>GOVERNMENT AUDITING STANDARDS</i>	6 – 7
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	8 – 9
Schedule of Findings and Questioned Costs	10 – 13
Management's Discussion and Analysis	14 – 17
BASIC FINANCIAL STATEMENTS	
Statement of Net Assets	18
Statement of Activities	19
Balance Sheet – Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities – Governmental Fund	23
Notes to Basic Financial Statements	24 – 39
SUPPLEMENTAL INFORMATION	
Budgetary Comparison Schedule – Education Fund	40 – 43
Schedule of Expenditures of Federal Awards	44
Notes to the Schedule of Expenditures of Federal Awards	45 – 46

OFFICIALS

INTERMEDIATE SERVICE CENTER NO. 2

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

Offices are located at:

2701 W. Washington Blvd.
Bellwood, IL 60104

COMPLIANCE REPORT
SUMMARY

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

AUDITORS' REPORTS

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

SUMMARY OF AUDIT FINDINGS

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

SUMMARY OF FINDINGS AND QUESTIONED COSTS

Item No.

Description

FINDINGS (GOVERNMENT AUDITING STANDARDS)

-N/A-

FINDINGS AND QUESTIONED COSTS (FEDERAL COMPLIANCE)

-N/A-

PRIOR FINDINGS NOT REPEATED (GOVERNMENT AUDITING STANDARDS)

-N/A-

PRIOR FINDINGS NOT REPEATED (FEDERAL COMPLIANCE)

-N/A-

EXIT CONFERENCE

The Center waived having an exit conference per a letter dated March 14, 2011. There were no audit findings to discuss.

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, 2010, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Intermediate Service Center No. 2's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2010, 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 April 13, 2011 on our consideration of the Intermediate Service Center No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 14 through 17 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Bass, Johnson & Howell, LLP

Palatine, Illinois
April 13, 2011

**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 the Intermediate Service Center No. 2, as of and for the year ended June 30, 2010, which collectively comprise the Intermediate Service Center No. 2's basic financial statements and have issued our report thereon dated April 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Cass, Johnson & Donnell LLP

Palatine, Illinois
April 13, 2011

**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 the Intermediate Service Center's major federal programs for the year ended June 30, 2010. 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, 2010.

Internal Control Over Compliance

Management of 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 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

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
April 13, 2011

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section II – Financial Statement Findings - None

INTERMEDIATE SERVICE CENTER NO. 2
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section III – Federal Award Findings - None

INTERMEDIATE SERVICE CENTER NO. 2
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2010

-N/A-

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis
Year Ended June 30, 2010

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, 2010.

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 (2010) and the prior year (2009) 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, 2010 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 Discussion and Analysis (Continued)
Year Ended June 30, 2010

Fund Financial Statements

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

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

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

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

Condensed Financial Information

Net assets are summarized in the table below.

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Assets:		
Current Assets	\$ 830,592	\$ 789,779
Non-current Assets:		
Capital Assets	<u>335,414</u>	<u>407,286</u>
Total Assets	<u>1,166,006</u>	<u>1,197,065</u>
Liabilities:		
Current Liabilities	428,092	543,982
Non-current Liabilities	<u>118,321</u>	<u>170,799</u>
Total Liabilities	<u>546,413</u>	<u>714,781</u>
Net Assets:		
Investments in capital assets, net of debt	160,261	182,879
Unrestricted	<u>459,332</u>	<u>299,405</u>
Total Net Assets	<u>\$ 619,593</u>	<u>\$ 482,284</u>

Current assets consist of cash and due from other governments.

Non-current liabilities consist of long-term debt. Current liabilities consist primarily of accounts payable and the current portion of long-term debt and deferred revenue.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2010

Intermediate Service Center No. 2's net assets consist of unrestricted 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:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Revenues received:		
Program:		
Operating grants and contributions	\$3,416,840	\$3,978,199
General:		
Local sources	1,013,930	1,102,197
On-behalf payments	158,987	120,672
Interest	5,973	8,445
Miscellaneous	<u>18,069</u>	<u>2,655</u>
Total revenue received	<u>4,613,799</u>	<u>5,212,168</u>
Expenditures disbursed:		
Instructional services:		
Instruction	429,591	362,974
Supporting Services	3,814,758	4,459,019
Community Services	1,590	1,000
Nonprogrammed Charges	71,564	136,124
Administrative services:		
On-behalf payments	<u>158,987</u>	<u>120,672</u>
Total expenditures disbursed	<u>4,476,490</u>	<u>5,079,789</u>
Change in net assets	137,309	132,379
Beginning net assets	<u>482,284</u>	<u>349,905</u>
Ending net assets	<u>\$ 619,593</u>	<u>\$ 482,284</u>

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

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

As shown in the table above, the cost of governmental activities for this year was \$4,476,490. Federal and State grants financed approximately three-fourths of this or \$3,416,840. Local sources, consisting of primarily tuition, were the next largest contributor with \$1,013,930.

Capital assets

During the year ended June 30, 2010, the Intermediate Service Center No. 2 invested in leasehold improvements totaling \$11,300 and included it in capital assets. The total amount invested in capital assets net of depreciation at June 30, 2010 by the Center was \$335,414.

INTERMEDIATE SERVICE CENTER NO. 2
Required Supplementary Information
Management Discussion and Analysis (Continued)
Year Ended June 30, 2010

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

Unrestricted net assets

During the year unrestricted net assets and net assets invested in capital assets increased \$137,309, due to the fact that revenues increased at a higher rate over expenses from a year ago. Total revenue for fiscal year ended June 30, 2009 was \$5,212,168 and decreased by \$598,369 to \$4,613,799 for fiscal year ended June 30, 2010, (primarily due to decreased state grant revenue for fiscal year ended June 30, 2010). Expenses decreased by \$603,299 from \$5,079,789 in fiscal year ended June 30, 2009, to \$4,476,490 in fiscal year ended June 30, 2010. The factors which have contributed to this condition are explained below.

Factors or Conditions Impacting Future Periods

On the revenue side, revenues decreased from the prior year; we anticipate this trend will continue.

On the expenditure side, decreased spending as a result of decreasing revenue 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 need additional financial information, please contact the Executive Director of the Intermediate Service Center No. 2 at 2701 W. Washington Blvd., Bellwood, IL 60104.

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2

Statement of Net Assets

June 30, 2010

<u>ASSETS</u>	<u>Governmental Activities</u>
Current assets:	
Cash in custody of Center	\$ 14,084
Cash in custody of Township School Treasurer	214,507
Due from other governments	<u>602,001</u>
Total current assets	<u>830,592</u>
Noncurrent assets:	
Capital assets, being depreciated, net	<u>335,414</u>
Total noncurrent assets	<u>335,414</u>
Total assets	<u>1,166,006</u>
 <u>LIABILITIES</u> 	
Current liabilities:	
Loan payable, current portion	56,832
Accounts payable	168,204
Accrued payroll liabilities	29
Deferred revenue	<u>203,027</u>
Total current liabilities	<u>428,092</u>
Non-current liabilities:	
Loan payable	<u>118,321</u>
Total liabilities	<u>546,413</u>
 <u>NET ASSETS</u> 	
Invested capital assets, net of related debt	160,261
Unrestricted	<u>459,332</u>
Total net assets	<u>\$ 619,593</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, 2010

	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets
		Operating Grants and Contributions	Primary Government Governmental Activities
FUNCTIONS/PROGRAMS			
Primary government:			
Governmental activities:			
Instructional services:			
Instruction	\$ 429,591	\$ 287,397	\$ (142,194)
Supporting services	3,814,758	3,059,522	(755,236)
Community services	1,590	990	(600)
Nonprogrammed charges	71,564	68,931	(2,633)
Administrative:			
On-behalf payments	158,987	-0-	(158,987)
Total governmental activities	\$ 4,476,490	\$ 3,416,840	(1,059,650)
General revenues:			
Local sources			1,013,930
On-behalf payments			158,987
Interest			5,973
Miscellaneous			18,069
Total general revenues, special and extraordinary items, and transfers			1,196,959
Change in net assets			137,309
Net assets - beginning			482,284
Net assets - ending			\$ 619,593

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

INTERMEDIATE SERVICE CENTER NO. 2

Balance Sheet Governmental Funds June 30, 2010

	<u>Governmental Fund Type Education Fund</u>
<u>ASSETS</u>	
Cash in custody of Center	\$ 14,084
Cash in custody Township School Treasurer	214,507
Due from other governments	<u>602,001</u>
Total assets	<u>\$ 830,592</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 168,204
Accrued payroll liabilities	29
Deferred revenue	<u>583,708</u>
Total liabilities	<u>751,941</u>
<u>FUND BALANCE</u>	
Fund balance - unrestricted	<u>78,651</u>
Total fund balance	<u>78,651</u>
Total liabilities and fund balance	<u>\$ 830,592</u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total fund balance - governmental fund	\$	78,651
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		335,414
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		380,681
Long-term liabilities incurred from governmental activities are not financial outsources and therefore, are not reported in the funds.		<u>(175,153)</u>
Net assets of governmental activities	<u>\$</u>	<u>619,593</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, 2010

	Governmental Fund Type Education Fund
<u>REVENUES</u>	
Local Sources	\$ 1,037,972
State Sources	1,388,318
Federal Sources	1,647,841
Total Direct Revenues	4,074,131
On-behalf Payments	158,987
Total Revenues	4,233,118
<u>EXPENDITURES</u>	
Instruction	429,591
Support Services	3,742,886
Community Services	1,590
Nonprogrammed Charges	71,564
Total Direct Expenditures	4,245,631
On-behalf Payments	158,987
Total Expenditures	4,404,618
Other Financing Sources (uses)	
Loan Proceeds, Net	(49,254)
Net Change in Fund Balance	(220,754)
Fund Balance, July 1, 2009	299,405
Fund Balance, June 30, 2010	\$ 78,651

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

INTERMEDIATE SERVICE CENTER NO. 2
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
Governmental Funds
Year Ended June 30, 2010

Net change in fund balances	\$	(220,754)
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Amounts reported for governmental activities in the Statement of Activities are different because:

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

Capital outlay	\$ 11,300	
Depreciation expense	<u>(83,172)</u>	(71,872)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	380,681
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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.

Issuance of long-term debt	(4,306)	
Principal payments	<u>53,560</u>	<u>49,254</u>

Change in net assets of governmental activities	\$	<u>137,309</u>
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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, 2010

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 and the administrative agent designated for this center is Bob Healy, Lyons Township School Treasurer.

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

- Education for Gifted Children
- Computer Technology Education
- Mathematics, Science and Reading Resources for teachers, including continuing education, 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, 2010

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 cost-reimbursement grant resources to such programs and then general revenues.

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

Invested in Capital Assets – represents the Center's total investment in capital assets. The outstanding debt related to these assets was \$175,153 at June 30, 2010.

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, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Restricted Net Assets – represents a restriction on resources of a state or local government that is externally imposed by creditors or imposed by law. Intermediate Service Center No. 2 does not have any restricted net assets.

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. The following fund type is used:

Governmental Fund Type

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

Education Fund

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

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

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

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

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

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

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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.

State Fiscal Stabilization Fund - Education State Grants, Recovery Act: Funds are used to assist States in implementing and maintaining their statewide systems of early intervention services.

State Fiscal Stabilization Fund - Government Services, Recovery Act: To support public safety and other government services, which may include assistance for elementary and secondary education and public institutions of higher education (IHEs), and for modernization, renovation or repair of public school facilities and IHE facilities.

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

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

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

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

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

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.

Gifted Education: Block grants of funding received from the State of Illinois, which can be used to fund all aspects of education .

Teacher & Administrators Mentoring Program: Designed to provide professional development for novice teachers and designed specifically for the needs of beginning teachers.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

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. 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, 2010 and is not legally required to do so. However, the Illinois State Board of Education requires budgets for certain State and Federal programs. These budgets were used to prepare the Budgetary Comparison Schedule of the Education Fund.

Federal grants administered that have budgets are as follows: Title II – Teacher Quality – Leadership Grant, Title I – School Improvement and Accountability, Title I – Reading First Part B SEA Funds, Learn and Serve America, State Fiscal Stabilization Fund - Government Services, Recovery Act, and State Fiscal Stabilization Fund - Education State Grants, Recovery Act.

State grants administered that have budgets are as follows: Intermediate Service Center Operations, Regional Safe Schools Program, Regional Safe Schools-General State Aid, Teacher Administrators & Mentoring Program, and Gifted Education.

F. 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.

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

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 \$5,973 in interest was credited to Intermediate Service Center No. 2.

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Cash deposits in custody of Center	\$ <u>14,084</u>	\$ <u>17,084</u>
Equity in pooled cash and investments of Lyons Township School Treasurer	\$ <u>214,507</u>	\$ <u>214,507</u>

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

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

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

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

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

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.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate for the year ended June 30, 2010, was 9.4 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer. The active member contribution rate was also 9.4 percent for the years ended June 30, 2009 and 2008.

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, 2010, State of Illinois contributions were based on 23.38 percent of creditable earnings not paid from federal funds, and the Center recognized revenue and expenditures of \$153,473 in pension contributions that the State of Illinois paid directly to TRS. For the years ended June 30, 2009 and June 30, 2008, the State of Illinois contribution rates as percentages of creditable earnings not paid from federal funds were 17.08 percent (\$120,672) and 13.11 percent (\$85,819), 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, 2010 were \$5,809. Contributions for the years ending June 30, 2009 and June 30, 2008, were \$6,097 and \$6,441, respectively.

INTERMEDIA TE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

3. RETIREMENT FUND COMMITMENTS (Continued):

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

- *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, 2010, the employer pension contribution was 23.38 percent of salaries paid from federal and special trust funds. For the years ended June 30, 2009 and 2008, the employer contribution was 17.08 and 13.11 percent of salaries paid from federal and special trust funds, respectively. For the year ended June 30, 2010, salaries totaling \$345,131 were paid from federal and special trust funds that required employer contributions of \$80,692. For the years ended June 30, 2009 and June 30, 2008, required Center contributions were \$58,838 and \$59,568, respectively.
- *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. Public Act 94-0004 made changes in the ERO program that were in effect for all ERO retirements in fiscal years 2008 through 2010. The act increased member and employer contributions and eliminated the waiver of member and employer ERO contributions that had been in effect for members with 34 years of service. Under the current ERO, the maximum employer contribution is 117.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2010, the Center paid \$-0- to TRS for employer contributions under the ERO program. For the years ended June 30, 2009 and June 30, 2008, the Center paid \$-0- and \$-0- in employer ERO contributions, respectively.
- *Salary increased over 6 percent and excess sick leave*. Public Act 94-0004 added two additional employer contributions to TRS.

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, 2010, the Center paid \$-0- to TRS for employer contributions due on salary increases in excess of 6 percent. For the year ended June 30, 2009 and June 30, 2008, the Center paid \$-0- and \$-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 used to calculate final average salary, and the TRS total normal cost rate (18.55 percent of salary during the year ended June 30, 2010).

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

3. RETIREMENT FUND COMMITMENTS (Continued):

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

For the year ended June 30, 2010, the Center paid \$-0- to TRS for sick leave days granted in the excess of the normal annual allotment. For the year ended June 30, 2009 and June 30, 2008, the Center paid \$-0- and \$-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, 2009. The report for the year ended June 30, 2010, is expected to be available in late 2010. The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, Illinois 62794-9253. The most current report is also available on the TRS web site at <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.

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 \$128,422.

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 \$71,363, the total required contribution for the current fiscal year.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

3. RETIREMENT FUND COMMITMENTS (Continued):

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 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. The director of HFS determines the rates and premiums for annuitants and dependent beneficiaries and establishes the cost-sharing parameters. 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 contributions to THIS.

The percentage of employer required contributions in the future will be determined by the director of Health Care and Family Services and 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 0.84 percent of pay during the year ended June 30, 2010. State of Illinois contributions were \$5,514, and Intermediate Service Center No. 2 recognized revenue and expenditures of this amount during the year.

Had Intermediate Service Center No. 2 recognized revenue and expenditures for State contributions intended to match active member contributions during the years ended June 30, 2009 and June 30, 2008, under the current standards, the contribution match would have been .84 percent of pay or \$5,935 and \$5,499 respectively.

Employer Contributions to THIS Fund

Intermediate Service Center No. 2 also makes contributions to THIS Fund. The Center THIS Fund contribution was 0.63 percent during the years ended June 30, 2010, June 30, 2009, and June 30, 2008. For the year ended June 30, 2010, Intermediate Service Center No. 2 paid \$4,135 to the THIS Fund. For the years ended June 30, 2009 and June 30, 2008, the Center paid \$4,451 and \$4,124 to the THIS Fund, respectively, which was 100 percent of the required contribution.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

3. RETIREMENT FUND COMMITMENTS (Continued):

D. Teacher Health Insurance Security Fund (Continued):

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	\$ 153,473
Teachers' Health Insurance Security	<u>5,514</u>
	<u>\$ 158,987</u>

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

5. DUE TO/FROM OTHER GOVERNMENTS :

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

Due from Other Governments:

Teacher & Administrators Mentoring Program	\$ 30,161
Regional Safe Schools Programs	414,626
ROE/ISC Operations	74,212
Title II – Teacher Quality – Leadership Grant	36,993
Title I - School Improvement & Accountability	<u>46,009</u>
	<u>\$602,001</u>

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, 2010:

Title I – Reading First Part B SEA Funds	\$ 29,940
Learn and Serve America	2,192
Gifted Education	<u>170,895</u>
	<u>\$203,027</u>

INTERMEDIATE SERVICE CENTER NO. 2

Notes to Basic Financial Statements

June 30, 2010

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. 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

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

Minimum future rental payments under the non-cancelable lease which has a term in excess of 1 year as of June 30, 2010 for each of the next two years are as follows:

Year Ended	
<u>June 30</u>	
2011	\$190,964
2012	<u>64,380</u>
	<u>\$255,344</u>

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

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 which has a term in excess of 1 year as of June 30, 2010 for the following year is as follows:

Year Ended	
<u>June 30</u>	
2011	<u>\$ 4,706</u>

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

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

7. NON-CANCELABLE OPERATING LEASES (Continued):

Lease Commitment – Lyons (Continued):

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2010 are as follows:

Year Ended <u>June 30</u>	
2011	\$ 53,832
2012	60,879
2013	63,315
2014	<u>5,293</u>
	<u>\$ 183,319</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 expires 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 represents the first months rent. The lease has a renewal option for five years.

Minimum future rental payments under the non-cancelable lease which has a term in excess of 1 year as of June 30, 2010 for each of the next four years are as follows:

Year Ended <u>June 30</u>	
2011	\$120,000
2012	120,000
2013	120,000
2014	<u>40,000</u>
	<u>\$400,000</u>

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	\$ 118,321
Current portion	<u>56,832</u>
	<u>\$ 175,153</u>

Interest expense of \$13,408 from this loan is included in purchased services.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to Basic Financial Statements
June 30, 2010

8. LONG-TERM DEBT (Continued):

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

<u>Fiscal Year</u> <u>Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 56,832	\$ 8,963
2012	60,333	5,458
2013	<u>57,988</u>	<u>1,740</u>
	<u>\$ 175,153</u>	<u>\$ 16,161</u>

9. NEW ACCOUNTING PRONOUNCEMENTS :

Effective for the year ending June 30, 2010, the Center adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. This statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2010, the Center adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides guidance on determining the useful life of intangible assets when the length of their life is limited by contractual or legal provisions. If there are no factors that limit the useful life of an intangible asset, the Statement provides that the intangible asset be considered to have an indefinite useful life. Intangible assets with indefinite useful lives should not be amortized unless their useful life is subsequently determined to no longer be indefinite due to a change in circumstances. There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2010, the Center adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. There was no significant impact on the Center's financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2010, the Center adopted GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. 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, 2010

10. SUBSEQUENT EVENTS:

Management has evaluated subsequent events through December 31, 2010, the date on which the financial statements were available to be issued.

For fiscal year ended June 30, 2011, Intermediate Service Center No. 2 will assume designated ROE functions for its current geographic service area. Beginning July 1, 2011, Intermediate Service Center No. 2 is responsible for all aspects of teacher certification for educators located within its district boundaries.

On October 1, 2010, Intermediate Service Center No. 2 executed a line of credit agreement with First National Bank of LaGrange for \$250,000. The line of credit matures October 1, 2011 and has a variable interest rate ranging from 4.5% to 5.5%. As of March 11, 2011 there were no borrowings on the line of credit.

SUPPLEMENTAL INFORMATION

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund
Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>REVENUES</u>			
Local Sources			
Interest	\$ -0-	\$ 5,973	\$ 5,973
Services Provided Other LEA's	707,950	1,013,930	305,980
Other	-0-	18,069	18,069
Total Local Sources	707,950	1,037,972	330,022
State Sources			
Regional Safe Schools Program	691,038	414,618	(276,420)
Regional Safe Schools - General State Aid	677,189	567,475	(109,714)
Teacher & Administrators Mentoring Program	126,432	126,432	-0-
State Free Lunch & Breakfast	-0-	291	291
Gifted Education	303,965	130,882	(173,083)
Other State Programs	-0-	37,305	37,305
I.S.C. Operations	148,422	111,315	(37,107)
Total State Sources	1,947,046	1,388,318	(558,728)
Federal Sources			
Title I - School Improvement & Accountability	983,715	1,192,525	208,810
Title II - Teacher Quality - Leadership Grant	147,493	166,817	19,324
State Fiscal Stabilization Fund - Education State Grants, Recovery Act	95,026	95,026	-0-
State Fiscal Stabilization Fund - Government Services, Recovery Act	30,781	30,781	-0-
National School Lunch Program	-0-	6,474	6,474
Title I - Reading First Part B SEA Funds	216,515	146,249	(70,266)
Learn and Serve America	12,500	9,969	(2,531)
Total Federal Sources	1,486,030	1,647,841	161,811
Total Direct Revenues	4,141,026	4,074,131	(66,895)
On-behalf Payments	-0-	158,987	158,987
Total Revenues	4,141,026	4,233,118	92,092

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>			
Operating			
Instruction			
Salaries	380,564	358,534	22,030
Employee Benefits	51,057	39,523	11,534
Purchased Services	6,000	25,485	(19,485)
Supplies and Materials	8,500	6,049	2,451
Capital Outlay	-0-	-0-	-0-
	<u>446,121</u>	<u>429,591</u>	<u>16,530</u>
Total Instruction			
Support Services			
Pupils			
Attendance and Social Work Services			
Salaries	221,322	217,029	4,293
Employee Benefits	37,578	47,520	(9,942)
Purchased Services	1,000	-0-	1,000
Counselor			
Salaries	-0-	-0-	-0-
Employee Benefits	-0-	-0-	-0-
Purchased Services	-0-	457	(457)
	<u>259,900</u>	<u>265,006</u>	<u>(5,106)</u>
Total Pupils			
Instructional Staff			
Improvement of Instruction Services			
Salaries	1,265,596	1,103,717	161,879
Employee Benefits	287,557	292,119	(4,562)
Purchased Services	865,878	1,113,649	(247,771)
Supplies and Materials	239,973	360,063	(120,090)
Capital Outlay	31,691	29,268	2,423
Other Objects	3,000	8,712	(5,712)
	<u>2,693,695</u>	<u>2,907,528</u>	<u>(213,833)</u>
Total Instructional Staff			

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2010

<u>EXPENDITURES</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
General Administration			
Board of Education Services			
Salaries	211,202	220,132	(8,930)
Employee Benefits	52,498	51,382	1,116
Purchased Services	5,692	13,450	(7,758)
Supplies and Materials	-0-	221	(221)
Capital Outlay	-0-	-0-	-0-
Special Area Administrative Services			
Salaries	-0-	-0-	-0-
Employee Benefits	-0-	12,200	(12,200)
Office of the Principal Services			
Salaries	179,856	179,857	(1)
Employee Benefits	13,280	13,195	85
Supplies and Materials	-0-	-0-	-0-
Total General Administration	<u>462,528</u>	<u>490,437</u>	<u>(27,909)</u>
Business			
Fiscal Services			
Salaries	4,782	40,928	(36,146)
Employee Benefits	1,143	9,454	(8,311)
Purchased Services	10,000	9,216	784
Operation and Maintenance of Plant Services			
Purchased Services	4,000	-0-	4,000
Supplies and Materials	-0-	-0-	-0-
Capital Outlay	-0-	2,319	(2,319)
Pupil Transportation Services			
Purchased Services	1,355	7,685	(6,330)
Total Business	<u>21,280</u>	<u>69,602</u>	<u>(48,322)</u>
Central			
Planning, Research, Development and Evaluation Services			
Salaries	5,000	3,200	1,800

INTERMEDIATE SERVICE CENTER NO. 2
Budgetary Comparison Schedule
Education Fund (Continued)
Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>EXPENDITURES</u>			
Other Support Services			
Salaries	37,963	5,546	32,417
Employee Benefits	8,494	1,553	6,941
Purchased Services	-0-	14	(14)
Supplies and Materials	-0-	-0-	-0-
Total Other Support Services	<u>46,457</u>	<u>7,113</u>	<u>39,344</u>
Total Support Services	<u>3,488,860</u>	<u>3,742,886</u>	<u>(254,026)</u>
Community Services			
Purchased Services	-0-	200	(200)
Supplies and Materials	1,000	1,390	(390)
Total Community Services	<u>1,000</u>	<u>1,590</u>	<u>(590)</u>
Nonprogrammed Charges			
Payments to Other Districts and Governmental Units			
Purchased Services	-0-	9,820	(9,820)
Other Payments to In-State Government Units			
Purchased Services	79,620	61,744	17,876
Transfers	125,425	-0-	125,425
Total Nonprogrammed Charges	<u>205,045</u>	<u>71,564</u>	<u>133,481</u>
Total Direct Expenditures	<u>4,141,026</u>	<u>4,245,631</u>	<u>(104,605)</u>
On-behalf Payments	-0-	158,987	(158,987)
Total Expenditures	<u>4,141,026</u>	<u>4,404,618</u>	<u>(263,592)</u>
Other Financing Sources (Uses)			
Loan Proceeds	-0-	4,306	4,306
Loan Payments-principal	-0-	(53,560)	(53,560)
Total Other Financing Sources	<u>-0-</u>	<u>(49,254)</u>	<u>(49,254)</u>
Excess of Revenues Over Expenditures	<u>\$ -0-</u>	<u>(220,754)</u>	<u>\$ (220,754)</u>
Fund Balance, July 1, 2009		<u>299,405</u>	
Fund Balance, June 30, 2010		<u>\$ 78,651</u>	

FEDERAL COMPLIANCE SECTION

INTERMEDIATE SERVICE CENTER NO. 2

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2010

Federal Grantor/ Program or Cluster Title	CFDA Number (A)	Project # or Contract # (B)	Expenditures	
			7/01/08 - 06/30/09 (C)	7/01/09 - 06/30/10 (D)
U.S. Dept. of Education passed through Illinois State Board of Education (ISBE):				
Title I - School Improvement & Accountability (M)	84.010A	09-4331-SS	\$ 740,329	\$ 208,810
Title I - School Improvement & Accountability (M)	84.010A	10-4331-SS	-0-	983,715
			740,329	1,192,525
Title IV - Safe and Drug Free Schools - Formula	84.186A	09-4400-00	10,269	-0-
			10,269	-0-
State Fiscal Stabilization Fund - Cluster				
ARRA-General State Aid-Education SFSF	84.394	09-4850-93	171,525	-0-
ARRA-General State Aid-Education SFSF	84.394	10-4850-93	-0-	95,026
ARRA-General State Aid-Government SFSF	84.397	10-4870-93	-0-	30,781
Total State Fiscal Stabilization Fund - Cluster			171,525	125,807
Title II - Teacher Quality	84.367A	09-4932-00	202	-0-
Title II - Teacher Quality - Leadership Grant	84.367A	09-4935-SS	53,450	56,317
Title II - Teacher Quality - Leadership Grant	84.367A	10-4935-SS	-0-	147,493
			53,450	203,810
Title I - Reading First Part B SEA Funds	84.357A	09-4337-04	35,044	33,956
Title I - Reading First Part B SEA Funds	84.357A	09-4337-00	688,017	87,233
Title I - Reading First Part B SEA Funds	84.357A	10-4337-00	-0-	25,060
			723,061	146,249
U.S. Dept. of Agriculture passed through Illinois State Board of Education (ISBE):				
National School Lunch Program	10.555	09-4210-00	7,374	620
National School Lunch Program	10.555	10-4210-00	-0-	5,854
			7,374	6,474
Corporation for National and Community Services passed through Illinois State Board of Education (ISBE):				
Learn and Serve America	94.004	09-4910-00	9,339	1,661
Learn and Serve America	94.004	10-4910-00	-0-	8,308
			9,339	9,969
Total Expenditures of Federal Awards			\$ 1,715,549	\$ 1,684,834

(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, 2010

1. SIGNIFICANT ACCOUNTING POLICIES:

A. Basis of Accounting:

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

B. Relationship to Basic Financial Statements:

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

2. SUBRECIPIENTS :

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

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

3. DESCRIPTION OF MAJOR PROGRAMS:

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

Title I – School Improvement & Accountability:

This program is part of the Center’s System of Support Coordination and Services Plan. The program is part of a strategy to nurture and assist low-performing schools in West Cook County. Services initially are targeted in 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
- Serve all schools and districts identified for support in the region and assist and collaborate with other regional centers to provide full coverage of targeted districts through efficient and cost-effective programs
- Provide the Suburban Cook County Regional Office of Education with school improvement consultants to evaluate various sections of the school improvement plan.

INTERMEDIATE SERVICE CENTER NO. 2
Notes to the Schedule of Expenditures of Federal Awards (Continued)
June 30, 2010

4. NONCASH ASSISTANCE:

-NONE-

5. LOAN AND LOAN GUARANTEES OUTSTANDING:

-NONE-

6. INSURANCE:

-NONE-