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, 2015

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

INTERMEDIATE SERVICE CENTER NO. 2

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INTERMEDIATE SERVICE CENTER NO. 2

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INTERMEDIATE SERVICE CENTER NO. 2
OFFICIALS

Executive Director (Current and during the audit period)	Dr. Mark Klaisner
Assistant Executive Director (July 1, 2017 to Current)	Dr. Mike Popp
Assistant Executive Director (July 1, 2015 through June 30, 2017)	Ms. Lisa Murray
Financial Assistant (July 1, 2014 to Current)	Ms. Maria Creevy
Business & Financial Analyst (During the audit period through December 31, 2017)	Ms. Linda Rogers

Offices are located at:

4413 Roosevelt Road
Suite 104
Hillside, IL 60162

Intermediate Service Center No. 2

For the year ended June 30, 2015

Compliance Report - Summary

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

Auditor's Reports

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

Summary of Audit Findings

Number of	This Audit	Prior Audit
Audit findings	5	5
Repeated audit findings	3	1
Prior recommendations implemented or not repeated	2	1

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

Summary of Findings and Questioned Costs

Item No.	Page	Description	Finding Type
		Findings (Government Auditing Standards)	
2015-001	14	Inadequate Internal Control Procedures	Significant Deficiency
2015-002	16	Use of Designated Grant Balances	Material Weakness
2015-003	17	Inadequate controls over Procurement-Card Transactions	Material Weakness
2015-004	19	Delay of Audit	Material Weakness
		Findings and Questioned Costs (Federal Compliance)	
2015-001	21	Inadequate Internal Control Procedures	Significant Deficiency
2015-005	22	Noncompliance with Grant Requirements	Significant Deficiency and Noncompliance
		Prior Findings Not Repeated (Government Auditing Standards)	
2014-002	29	Controls over Financial Statement Preparation	Material Weakness
2014-003	29	Unrecorded Liability	Material Weakness
		Prior Findings Not Repeated (Federal Compliance)	
		None	

Intermediate Service Center No. 2

For the year ended June 30, 2015

Exit Conference

The Intermediate Service Center No. 2 opted not to have a formal exit conference during the financial audit for the year ended June 30, 2015. Throughout the audit, numerous meetings were held between auditors and Service Center officials to discuss matters contained in this audit report. Responses to the recommendations were provided by Dr. Mark Klaisner, Executive Director, on August 16, 2018.

Intermediate Service Center No. 2

For the year ended June 30, 2015

Financial Statement Report - Summary

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

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

WIPFLi LLP
CPAs and Consultants

Wipfli LLP
215 East First St – Suite 200
Dixon, IL 61021

815.284.3331
Fax 815.284.9480

www.wipfli.com

Independent Auditors' Report

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Notes 12 and 13 to the financial statements, the Intermediate Service Center No. 2 implemented Governmental Accounting Standards Board (GASB) Statements No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27, and No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, in the current year and has recognized a net pension liability and deferred inflows and outflows of resources related to pensions. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Teachers' Retirement System of the State of Illinois Schedule of the Employer's Proportionate Share of the Net Pension Liability, Teachers' Retirement System of the State of Illinois Schedule of Employer Contributions, Illinois Municipal Retirement Fund Schedule of Changes in the Net Pension Liability and Related Ratios and Illinois Municipal Retirement Fund Schedule of Employer Contributions on pages 63 through 66 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.

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

Other Information

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

The combining schedules of accounts, the budgetary comparison schedules, the combining fund financial statements and Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining schedules of accounts, budgetary comparison schedules, the combining fund financial statements and the Schedules of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2018 on our consideration of the Intermediate Service Center No. 2's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Intermediate Service Center No. 2's internal control over financial reporting and compliance.

SIGNED ORIGINAL ON FILE

Dixon, Illinois
September 12, 2018

WIPFLi LLP
CPAs and Consultants

Wipfli LLP
215 East First St – Suite 200
Dixon, IL 61021

815.284.3331
Fax 815.284.9480

www.wipfli.com

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 Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Intermediate Service Center No. 2, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Intermediate Service Center No. 2's basic financial statements, and have issued our report thereon dated September 12, 2018.

Internal Control Over Financial Reporting

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

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

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A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002, 2015-003 and 2015-004 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of Findings and Questioned Costs as item 2015-001 to be a significant deficiency.

Compliance and Other Matters

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

Intermediate Service Center No. 2's Responses to Findings

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

Purpose of this Report

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

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Dixon, Illinois
September 12, 2018

WIPFLi LLP
CPAs and Consultants

Wipfli LLP
215 East First St – Suite 200
Dixon, IL 61021

815.284.3331
Fax 815.284.9480

www.wipfli.com

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

Honorable Frank J. Mautino
Auditor General
State of Illinois

Board of Directors
Intermediate Service Center No. 2

Report on Compliance for Each Major Federal Program

We have audited the Intermediate Service Center No. 2's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Intermediate Service Center No. 2's major federal programs for the year ended June 30, 2015. The Intermediate Service Center No. 2's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

In our opinion, the Intermediate Service Center No. 2 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2015-005. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-001 and 2015-005, that we consider to be significant deficiencies.

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

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

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Dixon, Illinois
September 12, 2018

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	X yes	___ no
• Significant deficiency(ies) identified	X yes	___ none reported
• Noncompliance material to financial statements noted?	___ yes	X no

Federal Award

Internal Control over major programs:		
• Material weakness(es) identified?	___ yes	X no
• Significant deficiency(ies) identified	X yes	___ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	X yes	___ no

Identification of major programs:

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

Section II – Financial Statement Findings

Finding No. 2015-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 14-001, 13-001 and 12-1)

Federal Program Name: Title I – School Improvement and Accountability
Project No.: 2015-4331-SS
CFDA No.: 84.010A
Passed Through: Illinois State Board of Education
Federal Agency: U.S. Department of Education

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

Criteria/Specific Requirement

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

Condition

A. Intermediate Service Center No. 2 has control procedures over its various accounting functions in place, however, they are not formally documented.

B. Pay rate approvals could not be provided for 1 of the 22 (5%) payroll items tested for current year major programs.

Questioned Costs

N/A

Section II – Financial Statement Findings (Continued)

Finding No. 2015-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 14-001, 13-001 and 12-1)

Context

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2015 were $457,730 for Title I – School Improvement and Accountability and $1,125,988 for High School Graduation Initiative.

Effect

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

Cause

A. The Service Center did not document its control procedures in writing.

B. The Service Center did not adhere to established internal control procedures to ensure pay rates were approved prior to running payroll.

Recommendation

A. The Service Center should ensure control procedures for its accounting functions are documented in writing.

B. The Service Center should comply with its established system of internal controls to ensure pay rates are properly approved before payroll is run and posted to the general ledger.

Management's Response

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

Although the Executive Director approved all pay rates, West 40 did not have written documentation of such approval for 1 of the pay rates tested. All pay rates are now approved by the Executive Director/Designee (Assistant Executive Director) prior to processing through payroll. Each payroll is reviewed and approved by the Executive Director and/or the Assistant Executive Director prior to being processed and posted to the general ledger.

Section II – Financial Statement Findings (Continued)

Finding No. 2015-002– Use of Designated Grant Balances

Criteria/Specific Requirement

Intermediate Service Center No. 2 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 the Service Center officials, because the Intermediate Service Center is primarily funded on a reimbursement basis, money must be spent before it is received from the State. This 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 temporarily 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

Intermediate Service Center No. 2 is primarily funded on a reimbursement basis for most of its programs. This along with the delay in funding from the State of Illinois has caused the Center to experience low cash flow issues. The source of funds used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

Section II – Financial Statement Findings (Continued)

Finding No. 2015-003— Inadequate controls over Procurement-Card Transactions (Repeated from Finding 14-004)

Criteria/Specific Requirement

Intermediate Service Center No. 2 (Service Center) is required to maintain a system of controls over disbursements to prevent errors, omissions, and fraud. Additionally, expenses incurred should be for a business purpose and represent economical and effective use of the Service Center's resources.

Condition

Internal controls over disbursements are not effectively designed and implemented. During our testing of Procurement-card (P-card) transactions, the auditors noted the following:

- In 9 of 9 (100%) of transactions tested, the Executive Director approved his own purchases.
- Personal expenses of one board member and two employees were charged by the Executive Director on the Service Center's P-card. These expenses were paid back in full by the employees and board member with personal checks written to the credit card company. The Intermediate Service Center maintained copies of the personal checks and the related charge receipts with the credit card statements. Personal expenses charged within the transactions tested totaled $941.

Effect

The Intermediate Service Center No. 2's management or its employees, in the normal course of performing their assigned functions, may not prevent or detect and correct errors, omissions, and/or fraud in a timely manner. Also, commingled personal and Service Center expenditures expose the Intermediate Service Center to potential liability for any personal charges made on the account.

Cause

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

Recommendation

We recommend the Intermediate Service Center No. 2 implement internal control procedures to ensure an appropriate review and approval process is in place. All P-card transactions should be reviewed by an employee other than the person incurring the expenditure and the Service Center should adhere to its policy prohibiting the use of Service Center P-cards for personal use.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section II – Financial Statement Findings (Continued)

Finding No. 2015-003— Inadequate controls over Procurement-Card Transactions (Repeated from Finding 14-004) (Continued)

Management's Response

The Intermediate Service Center No. 2 has instituted a policy of the Executive Director reviewing all P-card transactions, except his/her own, which are subsequently reviewed by the Assistant Director. P-cards will only be used for staff travel/expenses; spouse travel/expenses, will not be allowed to be charged to any Center P-card, and this will be included in the policy.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section II – Financial Statement Findings (Continued)

Finding No. 2015-004– Delay of Audit

Criteria/Specific Requirement

Intermediate Service Center No. 2 is subject to 105 ILCS 5/2-3.17a which requires the Auditor General's office to cause an audit to be made, as of June 30th of each year, of the financial statements of all accounts, funds and other moneys in the care, custody or control of the executive director of each educational service region in the State and of each educational service center established in the School Code. The audit is to be conducted in accordance with Generally Accepted Governmental Auditing Standards.

In accordance with 105 ILCS 5/2-3.17a, the Auditor General has promulgated administrative rules and regulations to govern this process. Those rules, 74 Ill. Adm. Code 420.320 (c) (2), state that for audit purposes, each regional office of education and educational service center shall make available to the Auditor General or his designee all books and records deemed necessary to make and complete the required audits. The records shall be in auditable form by August 15 of the succeeding fiscal year. Financial reports are to be available no later than August 31 in order for the annual audit to be completed by an independent auditor selected by the Auditor General. Annual financial statements are to be prepared on an accrual basis of accounting in accordance with generally accepted accounting principles (GAAP).

In addition, prudent business practices and transparency require timely preparation and completion of financial statements.

Condition

The Intermediate Service Center No. 2 did not provide completed financial statements in an auditable form by the August 31, 2015 deadline. The completed financial statements were received on August 16, 2017.

Effect

When financial statements and records are not provided in a timely manner, delays in the audit occur and the usefulness of the financial statements and related findings resulting from the audit is impacted. Additionally, untimely financial statements could result in repercussions from granting agencies including a loss of funding.

Cause

According to the Intermediate Service Center No. 2's officials, they incurred key employee turnover.

Section II – Financial Statement Findings (Continued)

Finding No. 2015-004– Delay of Audit (Continued)

Recommendation

The Intermediate Service Center No. 2 should implement procedures to ensure compliance with 105 ILCS 5/2-3.17a and 74 Ill. Adm. Code 420.320 (c) (2). Annual financial statements should be compiled on an accrual basis of accounting in accordance with GAAP. These financial statements need to be presented to the Auditor General's independent auditors for audit by the August 31 deadline.

Management's Response

West 40 has contracted with a CPA firm to prepare complete and accurate, timely financial statements for the Center to prepare for the 2016 audit. It is the intention of the West 40 Executive Director to hire the CPA firm to prepare the statements for 2017 and 2018 when the 2016 preparation is complete.

Intermediate Service Center No. 2

Schedule of Findings and Questioned Costs

Year Ended June 30, 2015

Section III – Federal Award Findings

Significant Deficiency

Finding No. 2015-001 – Inadequate Internal Control Procedures
(Finding details on pages 14 and 15)

Section III – Federal Award Findings

Finding No. 2015-005– Noncompliance with Grant Requirements (Repeated from Finding 14-005)

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

Criteria/Specific Requirement

According to 2 CFR Part 200.309, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, the Center may only charge costs to the grant resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

It is the Intermediate Service Center No. 2's (Service Center) responsibility to obtain proper supporting documentation for its grant expenditures.

Condition

The Service Center reported expenditures to the grant outside the grant funding period and not in accordance with 2 CFR Part 200.309. Expenditures were also reported outside the Center's appropriate fiscal year.

The Service Center claimed expenditures in the amount of $4,097, for the funding period 10/01/2014 – 09/30/2015. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2013 – 09/30/2014. In addition to the $4,097 charged to the grant, $12,292 claimed expenditures for the 6/30/2015 fiscal year were allowable costs, but should have been claimed in the prior fiscal year ended 6/30/2014.

Questioned Costs

N/A

Context

Total expenditures for Intermediate Service Center No. 2 for fiscal year 2015 were $1,125,988 for High School Graduation Initiative.

Section III – Federal Award Findings (Continued)

Finding No. 2015-005 – Noncompliance with Grant Requirements (Continued)

Effect

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

Cause

According to Service Center officials grant expenditures were incorrectly reported outside the proper grant funding period and fiscal year due to late receipt of invoice.

Recommendation

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

Management's Response

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

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2015

Corrective Action Plan

Finding No. 2015-001 – Inadequate Internal Control Procedures (Partially Repeated from Finding 13-001 and 12-1)

Federal Program Name: Title I – School Improvement and Accountability
Project No.: 2015-4331-SS
CFDA No.: 84.010A
Passed Through: Illinois State Board of Education
Federal Agency: U.S. Department of Education

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

Condition

A. Intermediate Service Center No. 2 has control procedures over its various accounting functions in place, however, they are not formally documented.

B. Pay rate approvals could not be provided for 1 of the 22 (5%) payroll items tested for current year major programs.

Corrective Action Plan

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

Although the Executive Director approved all pay rates, West 40 did not have written documentation of such approval for 1 of the pay rates tested. All pay rates are now approved by the Executive Director/Designee (Assistant Executive Director) prior to processing through payroll. Each payroll is reviewed and approved by the Executive Director and/or the Assistant Executive Director prior to being processed and posted to the general ledger.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2015

Finding No. 2015-002– 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

Intermediate Service Center No. 2 is primarily funded on a reimbursement basis for most of its programs. This along with the delay in funding from the State of Illinois has caused the Center to experience low cash flow issues. The source of funds used to address cash flow issues was available local funds, to the extent they were available, not grant funds.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2015

Finding No. 2015-003— Inadequate controls over Procurement-Card Transactions (Repeated from Finding 14-004)

Condition

Internal controls over disbursements are not effectively designed and implemented. During our testing of Procurement-card (P-card) transactions, the auditors noted the following:

- In 9 of 9 (100%) of transactions tested, the Executive Director approved his own purchases.
- Personal expenses of one board member and two employees were charged by the Executive Director on the Service Center's P-card. These expenses were paid back in full by the employees and board member with personal checks written to the credit card company. The Intermediate Service Center maintained copies of the personal checks and the related charge receipts with the credit card statements. Personal expenses charged within the transactions tested totaled $941.

Corrective Action Plan

The Intermediate Service Center No. 2 has instituted a policy of the Executive Director reviewing all P-card transactions, except his/her own, which are subsequently reviewed by the Assistant Director. P-cards will only be used for staff travel/expenses; spouse travel/expenses, will not be allowed to be charged to any Center P-card, and this will be included in the policy.

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2015

Finding No. 2015-004— Delay of Audit

Condition

The Intermediate Service Center No. 2 did not provide completed financial statements in an auditable form by the August 31, 2015 deadline. The completed financial statements were received on August 16, 2017.

Corrective Action Plan

West 40 has contracted with a CPA firm to prepare complete and accurate, timely financial statements for the Center to prepare for the 2016 audit. It is the intention of the West 40 Executive Director to hire the CPA firm to prepare the statements for 2017 and 2018 when the 2016 preparation is complete.

Anticipated Date of Completion

June 13, 2016

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Corrective Action Plan for Current Year Audit Findings

Year Ended June 30, 2015

Finding No. 2015-005— Noncompliance with Grant Requirements (Repeated from Finding 14-005)

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

Condition

The Service Center reported expenditures to the grant outside the grant funding period and not in accordance with 2 CFR Part 200.309. Expenditures were also reported outside the Center's appropriate fiscal year.

The Service Center claimed expenditures in the amount of $4,097, for the funding period 10/01/2014 – 09/30/2015. These expenditures were allowable costs but should have been claimed in the earlier funding period 10/01/2013 – 09/30/2014. In addition to the $4,097 charged to the grant, $12,292 claimed expenditures for the 6/30/2015 fiscal year were allowable costs, but should have been claimed in the prior fiscal year ended 6/30/2014.

Corrective Action Plan

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

Anticipated Date of Completion

Immediately upon learning of oversight.

Name of Contact Person

Mark Klaisner, Executive Director

Intermediate Service Center No. 2

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2015

Finding Number	Condition	Current Status
2014-001	Inadequate Internal Control Procedures	Repeated
2014-002	Controls over Financial Statement Preparation	Corrected
2014-003	Unrecorded Liability	Corrected
2014-004	Inadequate Controls over Procurement-Card Transactions	Repeated
2014-005	Noncompliance with Grant Requirements	Repeated

BASIC FINANCIAL STATEMENTS

INTERMEDIATE SERVICE CENTER NO. 2
STATEMENT OF NET POSITION
JUNE 30, 2015

EXHIBIT A

	Primary Government
	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	$ 266,348
Due from other governmental agencies	380,050
Total current assets	646,398
Noncurrent assets	
Capital assets, net	17,344
TOTAL ASSETS	663,742
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	470,831
LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	262,437
Due to other governmental agencies	508,727
Total current liabilities	771,164
Noncurrent liabilities	
Compensated absences	55,750
Net pension liability	4,723,840
Total noncurrent liabilities	4,779,590
TOTAL LIABILITIES	5,550,754
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	1,017,866
NET POSITION	
Net investment in capital assets	17,344
Unrestricted	(5,451,391)
TOTAL NET POSITION	$ (5,434,047)

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

INTERMEDIATE SERVICE CENTER NO. 2 **EXHIBIT B**
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues: Operating Grants and Contribution	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities
FUNCTIONS/PROGRAMS			
Primary government			
Governmental activities:			
Instructional services			
Salaries	$ 2,853,986	$ 2,106,238	$ (747,748)
Benefits	405,221	529,675	124,454
Purchased services	1,338,838	992,863	(345,975)
Supplies and materials	106,847	79,236	(27,611)
Depreciation expense	5,597	-	(5,597)
Miscellaneous	3,468	2,572	(896)
Payments to other governments	260,823	193,422	(67,401)
Capital expenditures	46,573	34,537	(12,036)
Pension expense	271,717	-	(271,717)
Administrative			
On-behalf payments	2,875,357	-	(2,875,357)
Total governmental activities	8,168,427	3,938,543	(4,229,884)
General revenues:			
Local sources			1,413,775
On-behalf payments			2,875,357
Total general revenues			4,289,132
Change in net position			59,248
Net position - beginning, restated (see Note 13)			(5,493,295)
Net position - ending			$ (5,434,047)

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

INTERMEDIATE SERVICE CENTER NO. 2
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2015

EXHIBIT C

	General Fund	Education Fund	Institute	Eliminations	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 211,482	$ 26,050	$ 28,816	$ -	$ 266,348
Due from other governmental agencies	113,865	266,185	-	-	380,050
Due from other funds	3,115	-	-	(3,115)	-
TOTAL ASSETS	$ 328,462	$ 292,235	$ 28,816	$ (3,115)	$ 646,398
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)					
LIABILITIES					
Accounts payable and accrued expenses	$ 185,575	$ 76,580	$ 282	$ -	$ 262,437
Due to other governmental agencies	134,541	202,710	171,476	-	508,727
Due to other funds	-	3,115	-	(3,115)	-
Total liabilities	320,116	282,405	171,758	(3,115)	771,164
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenues - reimbursements	57,653	165,706	-	-	223,359
FUND BALANCES (DEFICITS)					
Assigned	91,420	-	-	-	91,420
Unassigned	(140,727)	(155,876)	(142,942)	-	(439,545)
Total fund balances (deficits)	(49,307)	(155,876)	(142,942)	-	(348,125)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	$ 328,462	$ 292,235	$ 28,816	$ (3,115)	$ 646,398

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

INTERMEDIATE SERVICE CENTER NO. 2 **EXHIBIT D**
GOVERNMENTAL FUNDS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2015

Total fund balances - governmental funds		$ (348,125)
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in the governmental activities are not financial resources and therefore, are not reported in the funds.		17,344
Some revenues will not be collected for several months after the fiscal year ends; they are not considered "available" revenues and are deferred in the governmental funds.		223,359
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and therefore are not reported in the governmental funds as follows:		
Deferred outflows of resources	470,831	
Deferred inflows of resources	(1,017,866)	(547,035)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	(55,750)	
TRS net pension liability	(967,201)	
IMRF net pension liability	(3,756,639)	(4,779,590)
Net position of governmental activities		$ (5,434,047)

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

INTERMEDIATE SERVICE CENTER NO. 2
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

EXHIBIT E

	General Fund	Education Fund	Institute	Total Governmental Funds
REVENUES				
Federal sources	$ -	$ 1,755,970	$ -	$ 1,755,970
State sources	1,187,721	771,493	-	1,959,214
Local sources	1,139,897	99,142	174,736	1,413,775
On-behalf payments	11,619	-	-	11,619
Total revenues	2,339,237	2,626,605	174,736	5,140,578
EXPENDITURES				
Instructional services:				
Salaries	1,118,010	1,629,584	92,587	2,840,181
Benefits	169,575	220,276	15,370	405,221
Pension expense	85,371	208,889	14,764	309,024
Purchased services	627,654	689,052	22,132	1,338,838
Supplies and materials	56,541	48,429	1,877	106,847
Miscellaneous	3,119	349	-	3,468
Payments to other governments	260,823	-	-	260,823
On-behalf payments	11,619	-	-	11,619
Capital expenditures	44,495	750	1,328	46,573
Total expenditures	2,377,207	2,797,329	148,058	5,322,594
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(37,970)	(170,724)	26,678	(182,016)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR (RESTATED-SEE NOTE 13)	(11,337)	14,848	(169,620)	(166,109)
FUND BALANCES (DEFICITS), END OF YEAR	$ (49,307)	$ (155,876)	$ (142,942)	$ (348,125)

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

INTERMEDIATE SERVICE CENTER NO. 2 **EXHIBIT F**
GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Net change in fund balances		$ (182,016)
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.		
Depreciation expense		(5,597)
Some revenues will not be collected for several months after the Intermediate Service Center's fiscal year ends; they are considered "unavailable" revenues and are deferred inflows of resources in the governmental funds.		
Current year unavailable revenue		223,359
Accrued payroll and benefits costs which reflect the amount of vacation pay that has been earned by the Intermediate Service Center No. 2's employees in prior years and was paid in the current year, but is not reported in the governmental funds.		(13,805)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Pension contributions	$ 309,024	
Cost of benefits earned, net	(271,717)	37,307
Change in net position of governmental activities		$ 59,248

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

The Center 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.

The Center 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 the Center.

Reporting Entity

The Center provides educational services to member school districts and is governed by the Governing Board. Operations are conducted through one of its member districts which acts as its administrative agent.

These financial statements include the Center and its component units, entities for which it is considered financially accountable. As defined by GASB Statement 14, "The Financial Reporting Entity," the Center is not financially accountable for any other entity nor are there any other entities for which the nature and significance of their relationship with the Center are such that exclusion would cause the Center's financial statements to be misleading or incomplete.

In addition, based upon the above criteria, the Center is not aware of any entity which would be financially accountable for the Center, which would result in the Center being considered a component entity.

Government-Wide and Fund Financial Statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues. Under the terms of the grant agreements, the Center 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 the Center 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 Position presents the Center's nonfiduciary assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. The net position is reported in three categories:

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

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

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

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

Measurement Focus and Basis of Presentation

The accounts of the Center are organized and operated on the basis of funds each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures. Resources are allocated to and accounted for in individual funds as required by the State of Illinois based upon the purposes for which they are spent and the means by which spending activities are controlled.

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

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

Nonspendable Fund Balance – this consists of amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact. There are no accounts presenting a nonspendable fund balance.

Restricted Fund Balance – this consists of amounts that are restricted to specific purposes, that is, when constraints placed on the use of resources are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation. There are no accounts presenting a restricted fund balance.

Committed Fund Balance – this consists of amounts with self-imposed constraints or limitations that have been place at the highest level of decision making. There are no accounts presenting a committed fund balance.

Assigned Fund Balance – this consists of net amounts that are constrained by the Center's intent to be used for specific purposes, but that are neither restricted nor committed. 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. The assigned fund balance is made up of Alternative Learning Opportunities (ALOP) - Senior Plus and Fingerprinting.

Unassigned Fund Balance – available expendable financial resources in a governmental fund that are not designated for a specific purpose. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those purposes. The Center's unassigned fund balance includes deficit amounts in the following funds: Local Sources, General State Aid/Regional Safe Schools Program (RSSP) Tuition, ALOP - Achievers/OPRF, ALOP - Proviso, Non-Public School Compliance Services, West Cook Math Initiative, Responses to Intervention (RtI), Technology for Success, High School Graduation Initiative, School Breakfast Program, National School Lunch Program, RSSP, Title II - Teacher Quality - Leadership Grant, Title I - School Improvement and Accountability, and Institute Fund.

The Center reports the following major governmental funds:

The General Fund: The General Fund is the operating fund of the Center. 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 the Center and tuition monies for teachers.

General State Aid/Regional Safe Schools Program (RSSP) Tuition: This program is for students placed in Regional Safe Schools. Districts give up their General State Aid claim for the students while placed in the Regional Safe Schools Program.

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

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

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

Fingerprinting: Accounts for the fees received from the school districts which are used to pay for the fingerprinting services provided to school district employees.

Non-Public School Compliance Services: The Center has been contracted by ISBE to conduct compliance visits at non-public schools in Illinois to examine records, to observe teaching, and to view the physical plant with the intent, in general, to provide assurance to each school, its constituency, and the general public that the school supplies an education and an educational environment in general equivalency to a comparable public school within in the state.

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:

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

Responses to Intervention (RtI): Contributes to the improvement of instruction for students with disabilities and to the prevention of inappropriate identification of specific learning disabilities.

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.

High School (HS) 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.

State Free Lunch and 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.

School Bre akfast 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.

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.

Regional Safe Schools Program (RSSP): 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.

Truants' Alternative and Optional Education Program: This program serves eligible students with attendance problems and/or dropouts up to and including those who are 21 years of age, and provides truancy prevention and intervention services to students and/or serves as part-time or full-time options to regular school attendance.

Title II – Teacher Quality: Accounts for grant monies received for, and payment of, expenditures to improve instructional services in school districts.

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 – 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.

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

Basis of Accounting

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

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

The Center records on-behalf payments made by the State to the Teacher's Retirement System and Teacher Health Insurance Security Fund as revenue and expenditures.

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

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

Estimates

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

Budgets and Budgetary Accounting

Overall budgeting is not a legal requirement for the Center. The Center is the recipient of grants from ISBE for which comparison of budget and actual results are required. The comparison of budgeted and actual results for the following programs are reported as supplementary information:

Special Revenue Funds:

- Education Fund:
  - I.S.C. Operations:
  - Regional Safe Schools Program
  - Truants' Alternative and Optional Education Program
  - Title II – Teacher Quality – Leadership Grant
  - Title I – School Improvement and Accountability

Cash and Investments in the Custody of the Township School Treasurer

The Lyons Township School Treasurer (Treasurer), a separate legal governmental agency, serves as the Treasurer as prescribed by the Illinois School Code (105 ILCS 5/8). In addition to the Center, the Treasurer serves other districts. Cash from all districts is combined by the Treasurer and excess cash is invested as authorized by law. Because there is no specific identification of investments by individual districts, interest earned on investments is allocated monthly to the various districts based upon their average monthly cash and investment balances. The Treasurer is authorized by State statutes and local ordinances, to invest on behalf of the district in obligations of: U.S. Treasury agencies backed by the full faith and credit of the U.S. Government, certificates of deposit issued by commercial banks and savings and loan associations, and commercial paper rated within the three highest classifications by at least two standard rating services.

Because all cash and investments are pooled by a separate legal governmental agency (Treasurer) categorization by risk category is not determinable. Further information regarding collateralization of investments and insurance is available from the Treasurer's financial statements. During the year $0 in interest was credited to the Center.

	Carrying Amount	Bank Balance
Equity in pooled cash and investments of Lyons Township School Treasurer	$ (221,651)	$ (221,651)

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

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

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

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

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

As of June 30, 2015, the Treasurer's investments exposed to credit risk varied between an "AA+" and "A-2" rating by Standard & Poor's and between a "Aaa" and "Baa2" rating by Moody's.

Capital Assets

Capital assets used in governmental fund types are recorded in the government-wide financial statements at a cost or estimated historical cost if purchased or constructed. The Center capitalizes those fixed assets with a cost of $1,500 or more. Donated fixed assets are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. All capital assets are being depreciated using the straight-line method over the following useful life:

Equipment & Leasehold Improvements	7 years

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

The governmental activities capital assets activities for the year ended June 30, 2015 follows:

	Balance July 1, 2014	Additions	Retirements	Balance June 30, 2015
Equipment	$ 50,781	$ –	$ –	$ 50,781
Less: accumulated depreciation	(27,840)	(5,597)	–	(33,437)
Capital assets, net	$ 22,941	$ (5,597)	$ –	$ 17,344

Depreciation expense for the year ended June 30, 2015 of $5,597 was charged to governmental activities under the instructional services function.

Compensated Absences

The Center's employees hired before July 1, 2012 receive 20 days of vacation per year earned on a quarterly basis. Employees hired July 1, 2012 or after, earn vacation days on a quarterly basis based on the following schedule: 10 days for 0-2 years of continuous employment; 15 days for 3-5 years of continuous employment; 20 days for 6 or more years of continuous employment. Part-time employees who work a minimum of .6 FTE earn vacation on a prorated basis according to the full time employee vesting schedule listed above. Days in one fiscal year must be used by the end of that fiscal year.

The Executive Director determines the number of days that may be carried over from year to year. For the year ended June 30, 2015, the Executive Director granted a total of $55,750 in vacation accruals and thus, a liability has been accrued.

	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Compensated absences	$41,945	$13,805	$ -	$55,750

NOTE 2 – RISK MANAGEMENT

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

NOTE 3 – RETIREMENT FUND COMMITMENTS

Teachers' Retirement System of the State of Illinois (TRS)

Plan Description

The Center 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. TRS members include all active non-annuitants who are employed by a TRS-covered employer to provide services for which teacher licensure is required. The 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 TRS Board of Trustees is responsible for the System's administration.

TRS issues a publicly available financial report that can be obtained at http://trs.illiinois.gov/pubs/cafr; by writing to TRS at 2815 W. Washington, PO Box 19253, Springfield, IL 62794; or by calling (888) 877-0890, option 2.

Benefits Provided

TRS provides retirement, disability, and death benefits. Tier I members have TRS or reciprocal system service prior to January 1, 2011. Tier I members qualify for retirement benefits at age 62 with five years of service, at age 60 with 10 years, or age 55 with 20 years. The benefit is determined by the average of the four highest years of creditable earnings within the last 10 years of creditable service and the percentage of average salary to which the member is entitled. Most members retire under a formula that provides 2.2 percent of final average salary up to a maximum of 75 percent with 34 years of service. Disability and death benefits are also provided. Tier II members qualify for retirement benefits at age 67 with 10 years of service, or a discounted annuity can be paid at age 62 with 10 years of service. Creditable earnings for retirement purposes are capped and the final average salary is based on the highest consecutive eight years of creditable service rather than the last four. Disability provisions for Tier II are identical to those of Tier I. Death benefits are payable under a formula that is different from Tier I.

Essentially all Tier I retirees receive an annual 3 percent increase in the current retirement benefit beginning January 1 following the attainment of age 61 or on January 1 following the member's first anniversary in retirement, whichever is later. Tier II annual increases will be the lesser of three percent of the original benefit or one-half percent of the rate of inflation beginning January 1 following attainment of age 67 or on January 1 following the member's first anniversary in retirement, whichever is later.

Contributions

The State of Illinois maintains the primary responsibility for funding TRS. The Illinois Pension Code, as amended by Public Act 88-0593 and subsequent acts, provides that for years 2010 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90 percent of the total actuarial liabilities of the System by the end of fiscal year 2045.

Contributions from active members and TRS contributing employers are also required by the Illinois Pension Code. The contribution rates are specified in the pension code. The active member contribution rate for the year ended June 30, 2015, was 9.4 percent of creditable earnings. The member contribution, which may be paid on behalf of employees by the Center, is submitted to TRS by the Center through LaGrange School District No. 105.

On behalf contributions to TRS. The State of Illinois makes employer pension contributions on behalf of the Center. For the year ended June 30, 2015, State of Illinois contributions recognized by the Center were based on the State's proportionate share of the collective net pension liability associated with the Center, and the Center recognized revenue and expenditures of $2,863,738 in pension contributions from the State of Illinois.

2.2 formula contributions. Employers contribute 0.58 percent of total creditable earnings for the 2.2 formula change. The contribution rate is specified by statute. Contributions for the year ended June 30, 2015, were $7,514, and are deferred because they were paid after the June 30, 2014 measurement date.

Federal and special trust fund contributions. When TRS members are paid from federal and special trust funds administered by the Center, there is a statutory requirement for the Center to pay an employer pension contribution from those funds. Under a policy adopted by the TRS Board of Trustees that has been in effect since the fiscal year ended June 30, 2006, employer contributions for employees paid from federal and special trust funds will be the same as the State contribution rate to TRS. Public Act 98-0674 now requires the two rates to be the same.

For the year ended June 30, 2015, the employer pension contribution was 33.00 percent of salaries paid from federal and special trust funds. For the year ended June 30, 2015, salaries totaling $156,407 were paid from federal and special trust funds that required employer contributions of $51,760. These contributions are deferred because they were paid after the June 30, 2014 measurement date.

Employer retirement cost contributions. Under GASB Statement No. 68, contributions that an employer is required to pay because of a TRS member retiring are categorized as specific liability payments. The Center is required to make a one-time contribution to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the member's age and salary. The maximum employer ERO contribution under the current program is 146.5 percent and applies when the member is age 55 at retirement. For the year ended June 30, 2015, the Center paid $0 to TRS for employer ERO contributions.

The Center is also required to make a one-time contribution to TRS for members granted salary increases over 6 percent if those salaries are used to calculate a retiree's final average salary. A one-time contribution is also required for members granted sick leave days in excess of the normal annual allotment if those days are used as TRS service credit. For the year ended June 30, 2015, the Center paid $0 to TRS for employer contributions due on salary increases in excess of 6 percent and $0 for sick leave days granted in excess of the normal annual allotment.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Center reported a liability for its proportionate share of the net pension liability (first amount shown below) that reflected a reduction for State pension support provided to the Center. The State's support and total are for disclosure purposes only. The amount recognized by the Center as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Center were as follows:

Center's proportionate share of net pension liability	$	967,201
State's proportionate share of the net pension liability associated with the Center		35,569,690
Total	$	36,536,891

The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, and rolled forward to June 30, 2014. The Center's proportion of the net pension liability was based on the Center's share of contributions to TRS for the measurement year ended June 30, 2014, relative to the projected contributions of all participating TRS employers and the State during that period. At June 30, 2014, the Center's proportion was 0.0015892687 percent.

The net pension liability as of the beginning of this first measurement period under GASB Statement No. 68 was measured as of June 30, 2013, and the total pension liability was based on the June 30, 2013, actuarial valuation without any roll-up. The Center's proportion of the net pension liability as of June 30, 2013, was based on the Center's share of contributions to TRS for the measurement year ended June 30, 2013, relative to the projected contributions of all participating TRS employers and the State during that period. At June 30, 2013, the Center's proportion was 0.0018004541 percent.

For the year ended June 30, 2015, the Center recognized pension expense of $2,863,738 and revenue of $2,863,738 for support provided by the State. For the year ended June 30, 2015, the Center recognized pension expense of $51,353. At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 511	$ –
Net difference between projected and actual earnings on pension plan investments	–	48,609
Changes of assumptions	–	–
Changes in proportion and difference between the Center's contributions and proportionate share of contributions	–	106,465
Center's contributions subsequent to the measurement date	59,274	–
Total	$ 59,785	$ 155,074

$59,274 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the reporting year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2016	$ (37,870)
2017	(37,870)
2018	(37,870)
2019	(37,870)
2020	(3,086)

Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	5.75 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 White Collar Table with projections using scale AA that vary by member group.

For GASB disclosure purposes, the actuarial assumptions for the years ended June 30, 2014 and 2013 were assumed to be the same. However, for funding purposes, the actuarial valuations for those two years were different. The actuarial assumptions used in the June 30, 2014 valuation were based on updates to economic assumptions adopted in 2014 which lowered the investment return assumption from 8.0 percent to 7.5 percent. The salary increase and inflation assumptions were also lowered. The actuarial assumptions used in the June 30, 2013 valuation were based on the 2012 actuarial experience analysis and first adopted in the June 30, 2012 valuation. The investment return assumption was lowered from 8.5 percent to 8.0 percent and the salary increase and inflation assumptions were also lowered. Mortality assumptions were adjusted to anticipate continued improvement in mortality.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class that were used by the actuary are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. large cap	18%	8.23%
Global equity excluding U.S.	18%	8.58%
Aggregate bonds	16%	2.27%
U.S. TIPS	2%	3.52%
NCREIF	11%	5.81%
Opportunistic real estate	4%	9.79%
ARS	8%	3.27%
Risk parity	8%	5.57%
Diversified inflation strategy	1%	3.96%
Private equity	14%	13.03%
Total	100%	

Discount rate

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions, employer contributions, and State contributions will be made at the current statutorily-required rates.

Based on those assumptions, TRS's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive members and all benefit recipients. Tier I's liability is partially-funded by Tier II members, as the Tier II member contribution is higher than the cost of Tier II benefits. Due to this subsidy, contributions from future members in excess of the service cost are also included in the determination of the discount rate. Therefore, the long-term expected rate of return on TRS investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Center's proportionate share of the net pension liability to changes in the discount rate

The following presents the Center's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Center's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Center's proportionate share of the net pension liability	$ 1,194,446	$ 967,201	$ 779,017

TRS fiduciary net position

Detailed information about the TRS's fiduciary net position as of June 30, 2014 is available in the separately issued TRS *Comprehensive Annual Financial Report.*

Illinois Municipal Retirement Fund (IMRF)

IMRF Plan Description

The Center's defined benefit pension plan for regular employees provides retirement and disability benefits, post-retirement increases, and death benefits to plan members and beneficiaries. The Center's plan is managed by the Illinois Municipal Retirement Fund (IMRF), the administrator of an agent multi-employer public pension fund. A summary of IMRF's pension benefits is provided in the "Benefits Provided" section of this document. Details of all benefits are available from IMRF. Benefit provisions are established by statute and may only be changed by the General Assembly of the State of Illinois. IMRF issues a publicly available Comprehensive Annual Financial Report that includes financial statements, detailed information about the pension plan's fiduciary net position, and required supplementary information. The report is available for download at www.imrf.org.

Benefits Provided

IMRF has three benefit plans. The vast majority of IMRF members participate in the Regular Plan (RP). The Sheriff's Law Enforcement Personnel (SLEP) plan is for sheriffs, deputy sheriffs, and selected police chiefs. Counties could adopt the Elected County Official (ECO) plan for officials elected prior to August 8, 2011 (the ECO plan was closed to new participants after that date).
All three IMRF benefit plans have two tiers. Employees hired ***before*** January 1, 2011, are eligible for Tier 1 benefits. Tier 1 employees are vested for pension benefits when they have at least eight years of qualifying service credit. Tier 1 employees who retire at age 55 (at reduced benefits) or after age 60 (at full benefits) with eight years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any consecutive 48 months within the last 10 years of service, divided by 48. Under Tier 1, the pension is increased by 3% of the original amount on January 1 every year after retirement.

Employees hired ***on or after*** January 1, 2011, are eligible for Tier 2 benefits. For Tier 2 employees, pension benefits vest after ten years of service. Participating employees who retire at age 62 (at reduced benefits) or after age 67 (at full benefits) with ten years of service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1-2/3% of the final rate of earnings for the first 15 years of service credit, plus 2% for each year of service credit after 15 years to a maximum of 75% of their final rate of earnings. Final rate of earnings is the highest total earnings during any 96 consecutive months within the last 10 years of service, divided by 96. Under Tier 2, the pension is increased on January 1 every year after retirement, upon reaching age 67, by the lesser of:

- 3% of the original pension amount, or
- 1/2 of the increase in the Consumer Price Index of the original pension amount.

Employees Covered by Benefit Terms

As of December 31, 2014, the following employees were covered by the benefit terms:

	IMRF
Retirees and beneficiaries currently receiving benefits	22
Inactive plan members entitled to but not yet receiving benefits	52
Active plan members	36
Total	110

Contributions

As set by statute, Center's Regular Plan Members are required to contribute 4.5% of their annual covered salary. The statute requires employers to contribute the amount necessary, in addition to member contributions, to finance the retirement coverage of its own employees. The Center's annual contribution rate for year ended 2014 was 10.28%. For the calendar year ended 2014, the Center contributed $165,086 to the plan. The Center also contributes for disability benefits, death benefits, and supplemental retirement benefits, all of which are pooled at the IMRF level. Contribution rates for disability and death benefits are set by IMRF's Board of Trustees, while the supplemental retirement benefits rate is set by statute.

Net Pension Liability

The Center's net pension liability was measured as of December 31, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The following are the methods and assumptions used to determine total pension liability at December 31, 2014:

- The **Actuarial Cost Method** used was Entry Age Normal.
- The **Asset Valuation Method** used was Market Value of Assets.
- The **Inflation Rate** was assumed to be 3.5%.
- **Salary Increases** were expected to be 3.75% to 14.50%, including inflation.
- The **Investment Rate of Return** was assumed to be 7.50%.
- **Projected Retirement Age** was from the Experience-based Table of Rates, specific to the type of eligibility condition, last updated for the 2014 valuation according to an experience study from years 2011 to 2013.
- The IMRF-specific rates for **Mortality** (for non-disabled retirees) were developed from the RP-2014 Blue Collar Health Annuitant Mortality Table with adjustments to match current IMRF experience.
- For **Disabled Retirees**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Disabled Retirees Mortality Table, applying the same adjustments that were applied for non-disabled lives.
- For **Active Members**, an IMRF-specific mortality table was used with fully generational projection scale MP-2014 (base year 2014). The IMRF-specific rates were developed from the RP-2014 Employee Mortality Table with adjustments to match current IMRF experience.
- The **long-term expected rate of return** on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return to the target asset allocation percentage and adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Portfolio Target Percentage	Long-term Expected Real Rate of Return
Domestic equity	38%	7.60%
International equity	17%	7.80%
Fixed income	27%	3.00%
Real estate	8%	6.15%
Alternative investments	9%	5.25-8.50%
Cash equivalents	1%	2.25%
Total	100%	

INTERMEDIATE SERVICE CENTER NO. 2
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Single Discount Rate

A Single Discount Rate of 7.50% was used to measure the total pension liability. The projection of cash flow used to determine this Single Discount Rate assumed that the plan members' contributions will be made at the current contribution rate, and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. The Single Discount Rate reflects:

1. The long-term expected rate of return on pension plan investments (during the period in which the fiduciary net position is projected to be sufficient to pay benefits), and
2. The tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating (which is published by the Federal Reserve) as of the measurement date (to the extent that the contributions for use with the long-term expected rate of return are not met).

For the purpose of the most recent valuation, the expected rate of return on plan investments is 7.50%, the municipal bond rate is 3.56%, and the resulting single discount rate is 7.50%.

Changes in the Net Pension Liability

	Total Pension Liability (A)	Plan Fiduciary Net Pension (B)	Net Pension Liability/ (Asset) (A) – (B)
Balance at December 31, 2013	$ 6,920,869	$ 2,594,649	$ 4,326,220
Changes for the year:			
Service cost	252,217	–	252,217
Interest on the total pension liability	525,303	–	525,303
Changes of benefit terms	–	–	–
Differences between expected and actual experience of the total pension liability	64,720	–	64,720
Changes of assumptions	268,882	–	268,882
Contributions - Employer	–	165,086	(165,086)
Contributions - Employee	–	77,210	(77,210)
Net investment income	–	1,457,672	(1,457,672)
Benefit payments, including refunds of employee contributions	(85,867)	(85,867)	–
Other (net transfer)	–	(19,265)	19,265
Net Changes	1,025,255	1,594,836	(569,581)
Balance at December 31, 2014	$ 7,946,124	$ 4,189,485	$ 3,756,639

INTERMEDIATE SERVICE CENTER NO. 2
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Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the plan's net pension liability, calculated using a Single Discount Rate of 7.50%, as well as what the plan's net pension liability would be if it were calculated using a Single Discount Rate that is 1% lower or 1% higher:

	1% Lower 6.5%	Current Discount Rate 7.5%	1% Higher 8.5%
Net pension liability	$ 4,815,872	$ 3,756,639	$ 2,884,673

Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Center recognized pension expense of $221,218. At June 30, 2015, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Deferred Amounts Related to Pensions	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred amounts to be recognized in pension expense in future periods		
Differences between expected and actual experience	$ 45,994	$ –
Changes of assumptions	191,085	–
Net difference between projected and actual earnings on pension plan investments	–	862,792
Total deferred amounts to be recognized in pension expense in future periods	237,079	862,792
Pension contributions made subsequent to the measurement date	173,967	–
Total deferred amounts related to pensions	$ 411,046	$ 862,792

$173,967 reported as deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the reporting year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future periods as follows:

Year Ending December 31:	Net Deferred Inflows of Resources
2015	$ (119,175)
2016	(119,175)
2017	(171,665)
2018	(215,698)
2019	–
Thereafter	–
Total	$ (625,713)

NOTE 4 – OTHER POST EMPLOYMENT BENEFITS

Teacher Health Insurance Security Fund

The Center participates in the Teacher Health Insurance Security (THIS) Fund, a cost-sharing, multiple-employer defined benefit postemployment healthcare plan that was established by the Illinois legislature for the benefit of retired Illinois public school teachers employed outside the City of Chicago. The THIS Fund provides medical, prescription, and behavioral health benefits, but it does not provide vision, dental or life insurance benefits to annuitants of the TRS. Annuitants not enrolled in Medicare may participate in the State administered participating provider option plan or choose from several managed care options. Annuitants who were enrolled in Medicare Parts A and B may be eligible to enroll in Medicare Advantage plan.

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. Effective July 1, 2012, in accordance with Executive Order 12-01, the plan is administered by the Illinois Department of Central Management Services (CMS) with the cooperation of TRS. Section 6.6 of the State Employees Group Insurance Act of 1971 requires all active contributors to TRS who are not employees of the State to make a contribution to the THIS Fund.

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

- **On-behalf contributions to THIS Fund.** The State of Illinois makes employer retiree health insurance contributions on-behalf of the Center. State contributions are intended to match contributions to THIS Fund from active members which were 1.02 percent of pay during the year ended June 30, 2015. The State of Illinois contributions were $11,619, and the Center recognized revenue and expenditures of this amount during the year. State contributions intended to match active member contributions during the years ended June 30, 2014 and June 30, 2013 were 0.97 and 0.92 percent of pay, respectively. State contributions on behalf of the Center's employees were $7,000 and $7,734, respectively.

- **Employer contributions to THIS Fund.** The Center also makes contributions to THIS Fund. The Center's THIS Fund contribution was 0.76 percent during the year ended June 30, 2015. For the year ended June 30, 2015, the Center paid $9,846 to the THIS Fund. For the years ended June 30, 2014, and June 30, 2013, the Center paid $6,246 and $7,728 to the THIS Fund, respectively, which was 100 percent of the required contribution.

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

Illinois Municipal Retirement Fund

The Center has evaluated its potential other postemployment benefits liability. The Center provides continued health insurance coverage at the active employer rate to all eligible employees in accordance with Illinois statutes, which creates an implicit subsidy of retiree health insurance. Former employees who choose to retain their rights to health insurance through the Center are required to pay 100% of the current premium. However, only one former employee has chosen to stay in the Center's current health insurance plan. Therefore, there has been low utilization and, therefore, an immaterial implicit subsidy to calculate in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Additionally, the Center has no former employees for whom the Center was providing an explicit subsidy and no employees with agreements for future explicit subsidies upon retirement. Therefore, the Center has not recorded any postemployment benefit liability as of June 30, 2015.

NOTE 5 – ON-BEHALF PAYMENTS

The State of Illinois paid the following contribution on-behalf of the Center:

Teachers' Health Insurance Security	$	11,619

This amount has been recorded in the accompanying financial statements as State revenue and expenditures in the General Fund.

The Center also recorded $2,863,738 in revenue and expenses as on-behalf payment from Illinois State Board of Education (ISBE) for the Center's share of the State's TRS pension expense in the Statement of Activities.

State of Illinois on-behalf payments	$	11,619
Center's share of TRS pension expense		2,863,738
Total	$	2,875,357

NOTE 6 – INTERFUND TRANSFERS

(a) Due From (To) Other Funds

As of June 30, 2015, amounts due from (to) other funds consist of the following:

Fund	Due From Other Funds	Due To Other Funds
General Fund - General State Aid/RSSP Tuition	$ 3,115	$ –
Education Fund - State Free Lunch & Breakfast		103
Education Fund - School Breakfast Program		1,144
Education Fund - National School Lunch Program		1,868
Total	$ 3,115	$ 3,115

The amount due to the General Fund from the Education Fund resulted from interfund borrowing to cover short-term cash deficit.

NOTE 7 – DUE FROM/TO OTHER GOVERNMENTS

The Center's General Fund and Education Fund have funds due to and due from various other governmental units which consist of the following:

Due from Other Governmental Agencies:	
Illinois State Board of Education	$ 216,318
Local school districts	102,850
Others	60,882
Total	$ 380,050
Due to Other Governmental Agencies:	
Lyon's Township Treasurer	$ 488,000
Illinois State Board of Education	20,727
Total	$ 508,727

NOTE 8 – NON-CANCELABLE OPERATING LEASES

Lease Commitment – Hillside – Main Offices

On February 26, 2013 the Center leased a commercial building for its main offices. During December 2014, the lease was amended to add additional space. The sixty month lease began on June 1, 2013 and provides for the lease and the "Expansion Space" per the amendment by the Center of approximately 7,500 square feet of space plus the Expansion Space of 2,249 square feet for a total of 9,749 square feet in Hillside, Illinois. Base annual rent is initially set at $7,500 plus $2,316 for the Expansion Space per month with a 3% annual increase. The Center is responsible for common area maintenance and its pro-rata share of real estate taxes. The Center has an option to extend the term of the lease for an additional five year period with respect to the entire premises. Lease expense for the year ended June 30, 2015, amounted to $97,333.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2015 are as follows:

Year Ended June 30	Amount
2016	$ 124,113
2017	127,836
2018	120,698
Total	$ 372,647

Lease Commitment – Hillside – Harbor Academy

On June 28, 2013, the Center leased a commercial building for the Harbor Academy School. The thirty-six month lease beginning on June 28, 2013 provides for the lease by the Center of space in Hillside, Illinois. Base annual rent is initially set at $8,550 per month with a 3.5% annual increase beginning on July 1, 2014. The Center has one option to extend the term of the lease up to an additional three year period with respect to the entire premises. Lease expense for the year ended June 30, 2015, amounted to $106,195.

Minimum future rental payments under the non-cancelable lease for the years subsequent to June 30, 2015 are as follows:

Year Ended June 30	Amount
2016	$ 109,912

NOTE 10 – OTHER REQUIRED FUND DISCLOSURES

Deficit fund balances at June 30, 2015 are as follows:

General Fund:	
Local Sources	$ 180,095
ALOP - Achievers/OPRF	5,200
ALOP - Proviso	8,343
Non-Public School Compliance Services	49,049
	$ 242,687
Education Fund	
West Cook Math Initiative	$ 761
Responses to Intervention (RtI)	37,010
Technology for Success	2,227
High School Graduation Initiative	16,603
School Breakfast Program	1,144
National School Lunch Program	1,868
RSSP	10
Title II - Teacher Quality - Leadership Grant	25,899
Title I - School Improvement and Accountability	70,354
	$ 155,876
Institute Fund	$ 142,942

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

NOTE 11 – DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Deferred Outflows of Resources – Deferred outflows of resources present a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources are reported in the governmental fund financial statements as unavailable revenue and represent the amount of assets that have been recognized but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of grant receivables not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of components of the net pension liability that will reduce pension expense in future years.

NOTE 12 – NEW ACCOUNTING PRONOUNCEMENTS

In FY 2015, the Center implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB No. 27*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* The implementation of GASB Statement No. 68 established new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position was expected to include a significant liability for the government's proportionate share of employee pension plan. The implementation of GASB Statement No. 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The implementation of GASB Statement No. 71 resolves an issue related to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The implementation of GASB Statement Nos. 68 and 71 resulted in a prior period adjustment to net position in order to reflect the deferred outflows, inflows, and net pension liability related. The implementation of GASB Statement No. 69 had no impact on the Center's financial statements.

NOTE 13 – PRIOR PERIOD ADJUSTMENTS

The Center implemented GASB Statement Nos. 68 and 71 and consequently recognized deferred outflows of resources, deferred inflows of resources, and net pension liability in the current year. The net opening balance of deferred outflows of resources, deferred inflows of resources, and net pension liability in the governmental activities was $5,308,182. Because these pension-related opening balances reflect pension expenses not previously recognized, the opening net position of the governmental activities on the government-wide Statement of Activities has been restated as follows:

	Governmental Activities Net Position
Net position, July 1, 2014, as previously reported	$ (185,113)
Cumulative effect of change in accounting principle	(5,308,182)
Net position, July 1, 2014, as restated	$ (5,493,295)

A prior period adjustment amounting to $129,976 was also made to correct fund balances of General Fund and Education Fund as of June 30, 2014. This adjustment had no impact on total fund balance reported in the previous year as follows:

	General Fund	Education Fund	Institute Fund	Total
Fund balances, July 1, 2014, as previously reported	$ (141,313)	$ 144,824	$ (169,620)	$ (166,109)
Effect of correction of error	129,976	(129,976)	-	-
Fund balances, July 1, 2014, as restated	$ (11,337)	$ 14,848	$ (169,620)	$ (166,109)

NOTE 14 – SUBSEQUENT EVENTS

On June 25, 2018, the Center signed a $2,500,000 promissory note to provide financing for working capital. The note bears an interest rate of 4.0% and matures on June 25, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

INTERMEDIATE SERVICE CENTER NO. 2
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2015

Schedule of the Employer's Proportionate Share of the Net Pension Liability
Teachers' Retirement System of the State of Illinois
For the Year Ended June 30, 2015*

Employer's proportion of the net pension liability	0.0015892687%
Employer's proportionate share of the net pension liability	$ 967,201
State's proportionate share of the net pension liability associated with the employer	35,569,690
Total	$ 36,536,891
Employer's covered-employee payroll	867,564
Employer's proportionate share of the net pension liability as a percentage of its covered-employee payroll	111.5%
Plan fiduciary net position as a percentage of the total pension liability	43.0%

**The amounts presented were determined as of the prior fiscal-year end.*

Schedule of Employer Contributions
Teachers' Retirement System of the State of Illinois
For the Year Ended June 30, 2015 **

Fiscal Year Ended June 30,	Contractually-Required Contribution	Actual Contribution	Contribution Deficiency (Excess)	Employer's Covered-Employee Payroll	Contribution as a Percentage of Covered-Employee Payroll
2015	$ 59,274	$ 59,274	$ –	$ 1,295,537	4.6%
2014	56,704	56,704	–	867,564	6.5%

*** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.*

Notes to This Required Supplementary Information

Changes of assumptions - amounts reported in 2014 reflect an investment rate of return of 7.5 percent, an inflation rate of 3.0 percent and real return of 4.5 percent, and a salary increase assumption of 5.75 percent. In 2013, assumptions used were an investment rate of return of 8.0 percent, an inflation rate of 3.25 percent and a real return of 4.75 percent, and salary increases of 6.0 percent. However, the total pension liability at the beginning and end of the year was calculated using the same assumptions, so the difference due to actuarial assumptions was not calculated or allocated.

INTERMEDIATE SERVICE CENTER NO. 2
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2015

Schedule of Changes in the Net Pension Liability and Related Ratios
Illinois Municipal Retirement Fund
Calendar Year 2014

Calendar Year Ended December 31		2014
Total Pension Liability		
Service cost	$	252,217
Interest on the total pension liability		525,303
Changes of benefit terms		–
Differences between expected and actual experience of the total pension liability		64,720
Changes of assumptions		268,882
Benefit payments, including refunds of employee contributions		(85,867)
Net change in total pension liability		1,025,255
Total pension liability - beginning		6,920,869
Total pension liability - ending (A)	$	7,946,124
Plan Fiduciary Net Position		
Contributions - employer	$	165,086
Contributions - employees		77,210
Net investment income		1,457,672
Benefit payments, including refunds of employee contributions		(85,867)
Other (Net transfer)		(19,237)
Net change in fiduciary net position		1,594,864
Plan fiduciary net position - beginning		2,594,649
Plan fiduciary net position - ending (B)	$	4,189,513
Net pension liability - ending (A) - (B)	$	3,756,611
Plan fiduciary net position as a percentage of the total pension liability		52.7%
Covered valuation payroll	$	1,605,894
Net pension liability as a percentage of covered valuation payroll		233.9%

Notes to This Required Supplementary Information

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

INTERMEDIATE SERVICE CENTER NO. 2
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
JUNE 30, 2015

Schedule of Employer Contributions
Illinois Municipal Retirement Fund
Calendar Year 2014

Calendar Year Ended December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a Percentage of Covered Valuation Payroll
2014	$ (22,177)	$ 165,086	$ (187,263)	$1,605,894	10.28%

Notes to This Required Supplementary Information

Summary of Actuarial Methods and Assumptions Used in the Calculation of the 2014 Contribution Rate*

Valuation Date:

Notes	Actuarially determined contribution rates are calculated as of December 31 each year, which are 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and Assumptions Used to Determine 2014 Contribution Rates:

Actuarial Cost Method:	Aggregate entry age = normal
Amortization Method:	Level percentage of payroll, closed
Remaining Amortization Period:	29-year closed period
Asset Valuation Method:	5-year smoothed market; 20% corridor
Wage Growth:	4%
Price Inflation:	3%, approximate; No explicit price inflation assumption is used in this valuation.
Salary Increases:	4.40% to 16%, including inflation
Investment Rate of Return:	7.50%

Retirement Age:	Experience-based table of rates that are specific to the type of eligibility condition; last updated for the 2011 valuation pursuant to an experience study of the period 2008 to 2010.
Mortality:	RP-2000 Combined Healthy Mortality Table, adjusted for mortality improvements to 2020 using projection scale AA. For men, 120% of the table rates were used. For women, 92 percent of the table rates were used. For disabled lives, the mortality rates are the rates applicable to non-disabled lives set forward 10 years.
Other Information:	
Notes	There were no benefit changes during the year.

* Based on Valuation Assumptions used in the December 31, 2012, actuarial valuation; note two year lag between valuation and rate setting.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

INTERMEDIATE SERVICE CENTER NO. 2
GENERAL FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2015

SCHEDULE 1

	Local Sources	General State Aid/ RSSP Tuition	ALOP - Achievers/ OPRF	ALOP - Senior Plus
ASSETS				
Cash and cash equivalents	$ -	$ 80,558	$ 21,926	$ 98,963
Due from other governmental agencies	11,551	55,800	-	-
Due from other funds	-	3,115	-	-
TOTAL ASSETS	$ 11,551	$ 139,473	$ 21,926	$ 98,963
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable and accrued expenses	$ 90,996	$ 15,013	$ 27,126	$ 17,072
Due to other governmental agencies	100,264	-	-	-
TOTAL LIABILITIES	191,260	15,013	27,126	17,072
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	386	22,500	-	-
FUND BALANCES (DEFICITS)				
Assigned	-	-	-	81,891
Unassigned	(180,095)	101,960	(5,200)	-
Total fund balances (deficits)	(180,095)	101,960	(5,200)	81,891
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	$ 11,551	$ 139,473	$ 21,926	$ 98,963

INTERMEDIATE SERVICE CENTER NO. 2
GENERAL FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2015

SCHEDULE 1
(CONTINUED)

	ALOP - Proviso	Fingerprinting	Non-Public School Compliance Services	Total
ASSETS				
Cash and cash equivalents	$ -	$ 10,035	$ -	$ 211,482
Due from other governmental agencies	-	605	45,909	113,865
Due from other funds	-	-	-	3,115
TOTAL ASSETS	$ -	$ 10,640	$ 45,909	$ 328,462
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)				
LIABILITIES				
Accounts payable and accrued expenses	$ 7,105	$ 1,111	$ 27,152	$ 185,575
Due to other governmental agencies	1,238	-	33,039	134,541
TOTAL LIABILITIES	8,343	1,111	60,191	320,116
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenues	-	-	34,767	57,653
FUND BALANCES (DEFICITS)				
Assigned	-	9,529	-	91,420
Unassigned	(8,343)	-	(49,049)	(140,727)
Total fund balances (deficits)	(8,343)	9,529	(49,049)	(49,307)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	$ -	$ 10,640	$ 45,909	$ 328,462

INTERMEDIATE SERVICE CENTER NO. 2
GENERAL FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 2

	Local Sources	General State Aid/ RSSP Tuition	ALOP - Achievers/ OPRF	ALOP - Senior Plus
REVENUES				
State sources	$ -	$ 531,746	$ 219,368	$ 436,607
Local sources	149,311	782,035	-	-
On-behalf payments	11,619	-	-	-
Total revenues	160,930	1,313,781	219,368	436,607
EXPENDITURES				
Salaries	3,415	734,610	60,246	195,290
Benefits	10,912	97,776	6,242	36,163
Pension expense	-	38,697	7,937	33,823
Purchased services	266,984	179,699	26,632	67,066
Supplies and materials	22,822	14,346	6,096	9,964
Payments to other governments	-	125,425	117,415	-
Miscellaneous	3,119	-	-	-
On-behalf payments	11,619	-	-	-
Capital expenditures	10,817	21,268	-	12,410
Total expenditures	329,688	1,211,821	224,568	354,716
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(168,758)	101,960	(5,200)	81,891
FUND BALANCES (DEFICITS), BEGINNING OF YEAR, RESTATED	(11,337)	-	-	-
FUND BALANCES (DEFICITS), END OF YEAR	$ (180,095)	$ 101,960	$ (5,200)	$ 81,891

INTERMEDIATE SERVICE CENTER NO. 2
GENERAL FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 2
(CONTINUED)

	ALOP - Proviso	Fingerprinting	Non-Public School Compliance Services	Total
REVENUES				
State sources	$ -	$ -	$ -	$ 1,187,721
Local sources	149,260	28,199	31,092	1,139,897
On-behalf payments	-	-	-	11,619
Total revenues	149,260	28,199	31,092	2,339,237
EXPENDITURES				
Salaries	123,885	564	-	1,118,010
Benefits	18,439	43	-	169,575
Pension expense	4,914	-	-	85,371
Purchased services	7,110	80	80,083	627,654
Supplies and materials	3,255	-	58	56,541
Payments to other governments	-	17,983	-	260,823
Miscellaneous	-	-	-	3,119
On-behalf payments	-	-	-	11,619
Capital expenditures	-	-	-	44,495
Total expenditures	157,603	18,670	80,141	2,377,207
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(8,343)	9,529	(49,049)	(37,970)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR, RESTATED	-	-	-	(11,337)
FUND BALANCES (DEFICITS), END OF YEAR	$ (8,343)	$ 9,529	$ (49,049)	$ (49,307)

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2015

SCHEDULE 3

	West Cook Math Initiative	Responses to Intervention (RtI)	Technology for Success	High School Graduation Initiative	State Free Lunch and Breakfast	School Breakfast Program	National School Lunch Program
ASSETS							
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Due from other governmental agencies	42,163	37,010	51,589	16,603	103	1,144	1,868
TOTAL ASSETS	$ 42,163	$ 37,010	$ 51,589	$ 16,603	$ 103	$ 1,144	$ 1,868
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)							
LIABILITIES							
Accounts payable and accrued expenses	$ -	$ 12,507	$ 48,910	$ 2,781	$ -	$ -	$ -
Due to other governmental agencies	30,096	24,503	4,906	13,822	-	-	-
Due to other funds	-	-	-	-	103	1,144	1,868
Total liabilities	30,096	37,010	53,816	16,603	103	1,144	1,868
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	12,828	37,010	-	16,603	-	1,144	1,868
FUND BALANCES (DEFICITS)							
Unassigned	(761)	(37,010)	(2,227)	(16,603)	-	(1,144)	(1,868)
Total fund balances (deficits)	(761)	(37,010)	(2,227)	(16,603)	-	(1,144)	(1,868)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	$ 42,163	$ 37,010	$ 51,589	$ 16,603	$ 103	$ 1,144	$ 1,868

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
COMBINING SCHEDULE OF ACCOUNTS
JUNE 30, 2015

SCHEDULE 3
(CONTINUED)

	I.S.C. Operations	RSSP	Truants' Alternative & Optional Education Program	Title II - Teacher Quality	Title II - Teacher Quality - Leadership Grant	Title I - School Improvement and Accountability	Total
ASSETS							
Cash and cash equivalents	$ -	$ -	$ 26,050	$ -	$ -	$ -	$ 26,050
Due from other governmental agencies	-	19,452	-	-	25,899	70,354	266,185
TOTAL ASSETS	$ -	$ 19,452	$ 26,050	$ -	$ 25,899	$ 70,354	$ 292,235
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)							
LIABILITIES							
Accounts payable and accrued expenses	$ -	$ -	$ 5,323	$ -	$ 5,300	$ 1,759	$ 76,580
Due to other governmental agencies	-	19,462	20,727	-	20,599	68,595	202,710
Due to other funds	-	-	-	-	-	-	3,115
Total liabilities	-	19,462	26,050	-	25,899	70,354	282,405
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenues	-	-	-	-	25, 899	70,354	165,706
FUND BALANCES (DEFICITS)							
Unassigned	-	(10)	-	-	(25,899)	(70,354)	(155,876)
Total fund balances (deficits)	-	(10)	-	-	(25,899)	(70,354)	(155,876)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES (DEFICITS)	$ -	$ 19,452	$ 26,050	$ -	$ 25,899	$ 70,354	$ 292,235

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 4

	West Cook Math Initiative	Responses to Intervention (RtI)	Technology for Success	High School Graduation Initiative	State Free Lunch and Breakfast	School Breakfast Program	National School Lunch Program
REVENUES							
Federal sources	$ -	$ 213,229	$ -	$ 1,107,345	$ -	$ 10,718	$ 19,619
State sources	5,160	-	130,055	-	358	-	-
Local sources	99,142	-	-	-	-		
Total revenues	104,302	213,229	130,055	1,107,345	358	10,718	19,619
EXPENDITURES							
Salaries	27,170	120,130	45,242	746,446	-	-	-
Benefits	-	5,432	8,661	137,678	-	-	-
Pension expense	-	18,256	8,775	121,638	-	-	-
Purchased services	64,021	106,503	69,604	88,716	358	11,862	21,487
Supplies and materials	26,700	(82)	-	13,833	-	-	-
Miscellaneous	-	-	-	349	-	-	-
Capital expenditures	-	-	-	750	-	-	-
Total expenditures	117,891	250,239	132,282	1,109,410	358	11,862	21,487
EXCESS (DEFICITS) OF REVENUES OVER EXPENDITURES	(13,589)	(37,010)	(2,227)	(2,065)	-	(1,144)	(1,868)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR, RESTATED	12,828	-	-	(14,538)	-	-	-
FUND BALANCES (DEFICITS), END OF YEAR	$ (761)	$ (37,010)	$ (2,227)	$ (16,603)	$ -	$ (1,144)	$ (1,868)

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 4
(CONTINUED)

	I.S.C. Operations	RSSP	Truants' Alternative & Optional Education Program	Title II - Teacher Quality	Title II - Teacher Quality - Leadership Grant	Title I - School Improvement and Accountability	Total
REVENUES							
Federal sources	$ -	$ -	$ -	$ 103	$ 17,580	$ 387,376	$ 1,755,970
State sources	275,471	245,360	115,089	-	-	-	771,493
Local sources	-	-	-	-	-	-	99,142
Total revenues	275,471	245,360	115,089	103	17,580	387,376	2,626,605
EXPENDITURES							
Salaries	235,452	235,980	74,075	-	1,800	143,289	1,629,584
Benefits	22,990	18,536	11,008	-	152	15,819	220,276
Pension expense	11,801	3,665	1,296	-	427	43,031	208,889
Purchased services	5,134	(424)	25,876	103	41,100	254,712	689,052
Supplies and materials	150	4,115	2,834	-	-	879	48,429
Miscellaneous	-	-	-	-	-	-	349
Capital expenditures	-	-	-	-	-	-	750
Total expenditures	275,527	261,872	115,089	103	43,479	457,730	2,797,329
EXCESS (DEFICITS) OF REVENUES OVER EXPENDITURES	(56)	(16,512)	-	-	(25,899)	(70,354)	(170,724)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR, RESTATED	56	16,502	-	-	-	-	14,848
FUND BALANCES (DEFICITS), END OF YEAR	$ -	$ (10)	$ -	$ -	$ (25,899)	$ (70,354)	$ (155,876)

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 5

	I.S.C. Operations			RSSP			Truants' Alternative & Optional Education Program		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Federal sources	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$
State sources	275,471	275,471	-	245,360	245,360	-	146,474	115,089	(31,385)
Local sources	-	-	-	-	-	-	-	-	
Total revenues	275,471	275,471	-	245,360	245,360	-	146,474	115,089	(31,385)
EXPENDITURES									
Salaries	230,361	235,452	(5,091)	206,489	235,980	(29,491)	92,286	74,075	18,211
Benefits	39,361	22,990	16,371	31,782	18,536	13,246	22,010	11,008	11,002
Pension expense	-	11,801	(11,801)	-	3,665	(3,665)	-	1,296	(1,296)
Purchased services	4,721	5,134	(413)	1,455	(424)	1,879	26,928	25,876	1,052
Supplies and materials	1,028	150	878	5,634	4,115	1,519	5,250	2,834	2,416
Total expenditures	275,471	275,527	(56)	245,360	261,872	(16,512)	146,474	115,089	31,385
DEFICIENCY OF REVENUES OVER EXPENDITURES	$ -	(56)	$ (56)	$ -	(16,512)	$ (16,512)	$ -	-	$ -
FUND BALANCES, BEGINNING OF YEAR		56			16,502			-	
FUND BALANCES (DEFICITS), END OF YEAR		$ -			$ (10)			$ -	

INTERMEDIATE SERVICE CENTER NO. 2
EDUCATION FUND
BUDGETARY COMPARISON SCHEDULES
FOR THE YEAR ENDED JUNE 30, 2015

SCHEDULE 5
(CONTINUED)

	Title II - Teacher Quality - Leadership Grant			Title I - School Improvement and Accountability			Total		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES									
Federal sources	$ 55,358	$ 17,580	$ (37,778)	$ 587,849	$ 387,376	$ (200,473)	$ 643,207	$ 404,956	$ (238,251)
State sources	-	-	-	-	-	-	667,305	635,920	(31,385)
Local sources	-	-	-	-	-	-	-	-	-
Total revenues	55,358	17,580	(37,778)	587,849	387,376	(200,473)	1,310,512	1,040,876	(269,636)
EXPENDITURES									
Salaries	1,993	1,800	193	204,914	143,289	61,625	736,043	690,596	45,447
Benefits	775	152	623	85,219	15,819	69,400	179,147	68,505	110,642
Pension expense	-	427	(427)	-	43,031	(43,031)	-	60,220	(60,220)
Purchased services	52,590	41,100	11,490	297,716	254,712	43,004	383,410	326,398	57,012
Supplies and materials	-	-	-	-	879	(879)	11,912	7,978	3,934
Total expenditures	55,358	43,479	11,879	587,849	457,730	130,119	1,310,512	1,153,697	156,815
DEFICIENCY OF REVENUES OVER EXPENDITURES	$ -	(25,899)	$ (25,899)	$ -	(70,354)	$ (70,354)	$ -	(112,821)	$ (112,821)
FUND BALANCES, BEGINNING OF YEAR		-			-			16,558	
FUND BALANCES (DEFICITS), END OF YEAI		$ (25,899)			$ (70,354)			$ (96,263)	

FEDERAL COMPLIANCE SECTION

SCHEDULE 6

INTERMEDIATE SERVICE CENTER NO. 2
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

Federal Grantor/Pass-Through Grantor Program/Grant Title	Federal CFDA Number	Pass-Through/ Contract Number	FY 2015 Expenditures
U.S. DEPARTMENT OF EDUCATION			
High School Graduation Initiative			
Taking All Pathways of Educational Success To Reclaim	84.360A	15-S360A100058	$ 788,665
our Youth (TAPESTRY) (M)	84.360A	14-S360A100058	337,323
			$ 1,125,988
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)			
Passed-Through Illinois State Board of Education			
Title I - School Improvement and Accountability (M)	84.010A	2015-4331-SS	$ 457,730
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)			
Passed-Through Illinois State Board of Education			
Title II - Teacher Quality - Leadership	84.367	2015-4935-02	$ 34,072
Title II - Teacher Quality - Leadership	84.367	2014-4935-02	9,407
Title II - Teacher Quality	84.367	2014-4932-00	103
			$ 43,582
Special Education - State Personnel Development			
Passed-Through Lee/Ogle Regional Office of Education No. 47			
Responses to Intervention (RtI)	84.323	2015-4631-00	$ 179,795
Responses to Intervention (RtI)	84.323	2014-4631-00	70,444
			$ 250,239
TOTAL U.S. DEPARTMENT OF EDUCATION			**$ 1,877,539**
U.S. DEPARTMENT OF AGRICULTURE			
Child Nutrition Cluster:			
School Breakfast Program			
Passed-Through Illinois State Board of Education			
School Breakfast Program	10.553	2015-4220-00	$ 10,955
School Breakfast Program	10.553	2014-4220-00	907
			$ 11,862
National School Lunch Program			
Passed-Through Illinois State Board of Education			
National School Lunch Program	10.555	2015-4210-00	$ 18,461
National School Lunch Program	10.555	2014-4210-00	3,026
			$ 21,487
Total Child Nutrition Cluster			$ 33,349
TOTAL U.S. DEPARTMENT OF AGRICULTURE			**$ 33,349**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 1,910,888**

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

The accompanying notes are an integral part of this schedule.

INTERMEDIATE SERVICE CENTER NO. 2
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

NOTE 1 – REPORTING ENTITY BASIS OF PRESENTATION AND ACCOUNTING

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

Relationship to Basic Financial Statements

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

NOTE 2 – DESCRIPTION OF FEDERAL PROGRAMS AUDITED AS A MAJOR PROGRAM

(To be provided by auditors.)

NOTE 3 – SUBRECIPIENTS

None.

NOTE 4 – NONCASH ASSISTANCE

None.

NOTE 5 – LOAN AND LOAN GUARANTEES OUTSTANDING

None.

NOTE 6 – INSURANCE

None.