

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
AUDITED FINANCIAL REPORT
JUNE 30, 2012

LEGG & LEGG, LLP
Certified Public Accountants

**ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
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LEGG & LEGG, LLP

Certified Public Accountants

Billy L. Legg, CPA

James C. Legg, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Illinois Law Enforcement Alarm System

We have audited the accompanying financial statements of the governmental activities and the business-type activities of the Illinois Law Enforcement Alarm System as of and for the year ended June 30, 2012, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Illinois Law Enforcement Alarm Systems management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and business-type activities of the Illinois Law Enforcement Alarm System as of June 30, 2012, and the respective changes in financial position, and where applicable cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2013 on our consideration of the Illinois Law Enforcement Alarm System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Management's discussion and analysis information is omitted from these financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois Law Enforcement Alarm System's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Legg & Legg L.L.P.

Springfield, Illinois

February 5, 2013

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 129,198	\$ 451,215	\$ 580,413
Amounts due from contracts		726,241	726,241
Grants receivable	1,996,590		1,996,590
Mobile homes		13,218	13,218
Merchandise inventory		4,788	4,788
Due from Governmental Fund		181,664	181,664
Prepaid expenses	628,500	13,321	641,821
Deposits		5,100	5,100
Dues receivable		5,100	5,100
Capital assets net of depreciation:			
Leasehold improvements	1,236,083		1,236,083
Equipment	127,771		127,771
Vehicles	46,302		46,302
Total Assets	4,164,444	1,400,647	5,565,091
Liabilities			
Due to Proprietary Fund	181,664		181,664
Accounts payable	1,896,097	645,402	2,541,499
Deferred revenue	6,592	88,250	94,842
Accrued insurance		4,544	4,544
Total Liabilities	2,084,353	738,196	2,822,549
Net Assets			
Invested in capital assets	1,410,156		1,410,156
Restricted for:			
Lease commitments	628,500		628,500
Grant projects	41,435		41,435
Unrestricted		662,451	662,451
Total Net Assets	\$ 2,080,091	\$ 662,451	\$ 2,742,542

The accompanying notes are an integral part of these financial statements

**ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:						
Governmental Activities:						
Management and administration	\$ 336,960		\$ 335,298	\$ (1,662)	\$ (1,662)	\$ (1,662)
Task force equipment	5,774,936		5,774,501	(435)	(435)	(435)
Planning, conferences, training and workshops	6,014,534		5,504,181	(510,353)		(510,353)
Credentialing	321,937		322,008	71		71
Total governmental activities	12,448,367		11,935,988	(512,379)		(512,379)
Business-type Activity:						
Administration and projects	1,157,694	\$ 1,187,908	310		\$ 30,524	30,524
Total business-type activity	1,157,694	1,187,908	310		30,524	30,524
Total primary government	\$13,606,061	\$ 1,187,908	\$ 11,936,298	(512,379)	30,524	(481,855)
General Revenues:						
Interest income					1,362	1,362
Total general revenues					1,362	1,362
Change in net assets				(512,379)	31,886	(480,493)
Net assets - beginning				2,592,470	630,565	3,223,035
Net assets - ending				\$ 2,080,091	\$ 662,451	\$ 2,742,542

The accompanying notes are an integral part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2012

	General Fund	Total Governmental Fund
Assets		
Cash and cash equivalents	\$ 129,198	\$ 129,198
Grants receivable	1,996,590	1,996,590
Prepaid lease	628,500	628,500
Total Assets	<u>2,754,288</u>	<u>2,754,288</u>
Liabilities		
Deferred revenue	6,592	6,592
Due to Proprietary Fund	181,664	181,664
Accounts payable	1,896,097	1,896,097
Total Liabilities	<u>2,084,353</u>	<u>2,084,353</u>
Fund Balance		
Restricted for:		
Lease commitments	628,500	628,500
Grant projects	<u>41,435</u>	<u>41,435</u>
Total Fund Balance	<u>669,935</u>	669,935
Total Liabilities and Fund Balance	<u>2,754,288</u>	
Reconciliation to Statement of Net Assets:		
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities of \$2,166,408, net of accumulated depreciation of \$756,252, are not financial resources and therefore, are not reported in the funds.		1,410,156
Net assets of governmental activities		<u>\$ 2,080,091</u>

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2012

Reconciliation to Statement of Activities:

Net change in fund balance - governmental fund \$ (357,902)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$175,969) exceeded capital outlays (\$21,492) in the current period. (154,477)

Change in Net Assets of Governmental Activities \$ (512,379)

The accompanying notes are an integral part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 For the Year Ended June 30, 2012

	<u>General Fund</u>
Revenues:	
Federal sources:	
Grants-in-aid	\$ 11,924,394
State sources:	
Grants-in-aid	<u>11,594</u>
Total revenues	<u>11,935,988</u>
Expenditures:	
Current:	
Management and Administration	336,960
Training and reimbursements	12,111,407
Net capital outlay (current purchases less applicable current depreciation)	<u>(154,477)</u>
Total Expenditures	<u>12,293,890</u>
(Decrease) expenditures over revenues	(357,902)
Fund balance at beginning of year	<u>1,027,837</u>
Fund balance at end of year	<u><u>\$ 669,935</u></u>

The accompanying notes are an integral part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
June 30, 2012

	<u>Business Fund</u>	<u>Foundation Fund</u>	<u>Total</u>
Assets			
Current Assets:			
Cash and cash equivalents	\$ 411,266	\$ 39,949	\$ 451,215
Amounts due from contracts	726,241		726,241
Mobile homes		13,218	13,218
Merchandise inventory		4,788	4,788
Due from Governmental Fund	181,664		181,664
Due from ILEAS Foundation	33,000		33,000
Due from IESMA	5,100		5,100
Dues recievable	5,100		5,100
Prepaid expenses	13,321		13,321
 Total Assets	 <u>1,375,692</u>	 <u>57,955</u>	 <u>1,433,647</u>
Liabilities:			
Current Liabilities			
Accounts payable	643,257	2,145	645,402
Deferred revenue	88,250		88,250
Accrued insurance	4,544		4,544
Due to Business Fund		33,000	33,000
 Total Liabilities	 <u>736,051</u>	 <u>35,145</u>	 <u>771,196</u>
Net Assets			
Unrestricted	639,641	22,810	662,451
 Total Liabilities and Net Assets	 <u>\$ 1,375,692</u>	 <u>\$ 57,955</u>	 <u>\$1,433,647</u>

The accompanying notes are a part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS (BUSINESS-TYPE ACTIVITIES)
For the Year Ended June 30, 2012

	Business Fund	Foundation Fund	Total
Operating Revenues:			
Membership dues	\$ 45,900		\$ 45,900
Conferences	79,975	\$ 30,432	110,407
Contributions		310	310
Management services income	890,585		890,585
Training Center income	23,576		23,576
Training Center lease income	116,740		116,740
Miscellaneous income	700		700
 Total Operating Income	 <u>1,157,476</u>	 <u>30,742</u>	 <u>1,188,218</u>
Operating Expenses:			
Conference expenses	37,891	5,713	43,604
General administrative expenses	50,438	8,900	59,338
Management services expenses	908,602		908,602
Training Center expenses	16,234		16,234
Advertising and promotion	953		953
Office expense	7,088		7,088
Insurance	48,460	1,895	50,355
Salaries	63,401		63,401
Repair and maintenance	8,119		8,119
 Total Operating Expenses	 <u>1,141,186</u>	 <u>16,508</u>	 <u>1,157,694</u>
 Net Operating Revenues	 16,290	 14,234	 30,524
Nonoperating Revenues:			
Interest income	<u>1,362</u>		<u>1,362</u>
 Change in Net Assets	 17,652	 14,234	 31,886
 Total Net Assets - Beginning	 <u>621,989</u>	 <u>8,576</u>	 <u>630,565</u>
 Total Net Assets - Ending	 <u>\$ 639,641</u>	 <u>\$ 22,810</u>	 <u>\$ 662,451</u>

The accompanying notes are an integral part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Business Fund	Foundation Fund	Total
Cash Flows From Operating Activities			
Conference income	\$ 79,975	\$ 36,606	\$ 116,581
Membership dues	43,800		43,800
Management services	174,444		174,444
Contributions		310	310
Training Center lease income	140,507		140,507
Training Center income	23,576		23,576
All other income	700		700
Payment to suppliers	(497,235)	(22,346)	(519,581)
Net cash provided by operating activities	(34,233)	14,570	(19,663)
Cash flows from investing activities			
Interest	1,362		1,362
Purchase of property			-
Net cash provided (used) by investing activities	1,362	-	1,362
Cash flows from financing activities			
Payments to Governmental Fund and Affiliate	(436,018)		(436,018)
Payments from Governmental Fund and Affiliate	299,582		299,582
Net cash used in financing activities	(136,436)	-	(136,436)
Net increase in cash and cash equivalents	(169,307)	14,570	(154,737)
Balance - beginning of year	580,573	25,379	605,952
Balance - end of year	\$ 411,266	\$ 39,949	\$ 451,215
Reconciliation of operating income to net cash provided by operating activities:			
Total income	\$ 17,652	\$ 14,234	\$ 31,886
Less interest income	(1,362)		(1,362)
Operating income	16,290	14,234	30,524
Change in assets:			
Membership dues receivable	(2,100)		(2,100)
Amounts due from contracts	(716,141)		(716,141)
Prepaid expenses	(16)		(16)
Merchandise inventory		(572)	(572)
Accounts payable	642,790	908	643,698
Accrued insurance	1,177		1,177
Deferred revenues	23,767		23,767
Net cash provided (used) by operating activities	\$ (34,233)	\$ 14,570	\$ (19,663)

The accompanying notes are an integral part of these financial statements

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Illinois Law Enforcement Alarm System (ILEAS) was formed in 2002 as an alliance of all law enforcement agencies in the State of Illinois for the purpose of mutual aid, homeland security and the combining of resources for public safety. ILEAS represents all the sheriff's offices and several hundred police departments in Illinois.

The Organization's financial statements are prepared in accordance with generally accepted accounting principals (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies in GAAP and used by ILEAS are discussed below.

ILEAS has established and manages a state-wide mutual aid plan whereby, member departments can "pre-plan" disaster and crisis mutual aid. If a department needs assistance during an incident, ILEAS can share that burden by notifying and coordinating the pre-plan mutual aid agencies responses.

ILEAS is divided into 8 geographic regions which are based on Illinois Emergency Management Agency regions. Each region elects a chief-of-police and a sheriff to act as regional co-chairs. The ILEAS Governing Board is made up of:

- 16 Regional Co-Chairs
- 2 Representatives from Chicago PD
- 1 Representative from the Illinois State Police
- 1 Representative from the Illinois Sheriff's Association
- 1 Representative from the Illinois Association of Chiefs of Police

Any of the Governing Board members can appoint a permanent delegate to the Board. Additionally, ILEAS has added advisory, non-voting ex-officio members to the Governing Board. The President of ILEAS has appointed an Executive Committee consisting of elected Governing Board Officers to manage the day to day activities. ILEAS has hired staff to administer the Federal Homeland Security grants which make up a majority of ILEAS funds.

ILEAS is both a coalition/consortium of local agencies as established by law in Illinois and a non-profit corporation which share identical officers and by-laws. As required by U.S. generally accepted accounting principles, these financial statements include ILEAS and its component units, entities for which ILEAS is considered to be financially accountable. At June 30, 2012 no entities were considered a component unit of ILEAS. Also, ILEAS is not considered a component unit of any other government entity.

The mission of ILEAS is to meet the needs of law enforcement throughout the State of Illinois in matters of mutual aid, emergency response and the combining of resources for public safety.

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

Measurement focus, basis of accounting, and financial statement presentation

In the government-wide statement of net assets and the statement of activities, both governmental and business-type activities 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 eligibility requirements imposed by the provider have been met.

Grants, entitlements, and interest associated with the current fiscal period are all considered susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered measurable and available only when the Organization receives cash.

Fund accounting

The accounts of ILEAS are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

The funds of the financial reporting entity are described below:

Governmental Fund – This is used to account for all grant activities in the Organization.

Proprietary Funds – There are two proprietary funds that are used to account for business-type activities provided through the Organization. A business account was established to record activities financed primarily by conferences, management services and other non-grant related activities. In addition, the Illinois Law Enforcement Alarm System Foundation was created to fund increased training and exercises for Illinois law enforcement agencies, to further the education and to sharpen skills of police officers, sheriff's deputies, and other law enforcement personnel with regard to Homeland Security. The Foundation is a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and any contributions received are tax deductible under section 170 of the code and is not a private foundation. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for tax years ending 2010, 2011 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

Use of Estimates

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

NOTE 2 – CASH AND INVESTMENTS

Cash and Cash Equivalents

For purposes of the statement of cash flows, ILEAS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in event of a bank failure, the deposits of ILEAS might not be recovered. As of June 30, 2012 the Federal Deposit Insurance Corporation (FDIC) provided unlimited insurance coverage for the checking and money market accounts on deposit. Effective January 1, 2013 amounts will be insured by the FDIC up to \$250,000 per depositor for the combined total balance of all deposit accounts.

NOTE 3 – INVENTORY VALUATION

Inventories available for sale consist of supplies and two mobile homes that are stated at the lower of cost or market.

NOTE 4 – GRANTS RECEIVABLE

At year-end ILEAS had approved grants receivable from the Department of Homeland Security in the amount of \$1,996,590.

NOTE 5 – AMOUNTS DUE FROM CONTRACTS

During the year ILEAS contracted with the City of Chicago to coordinate the acquisition of additional law enforcement personnel to provide services required for the NATO Summit Event. ILEAS also contracted with the Illinois Emergency Management Agency to coordinate disaster response assistance relative to the flood in 2011. "Amounts due from contracts" represents costs incurred in coordinating the project and will be reimbursed by the responsible party to the contract.

NOTE 6 – CAPITAL ASSETS POLICY

Capital assets, which include buildings and leasehold improvements, apparatus and vehicles, and equipment, reported in the government-wide financial statements are defined by ILEAS as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and leasehold improvements	20-50 years
Apparatus and vehicles	5-25 years
Equipment	5-20 years

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

NOTE 7 – DEFINING OPERATING REVENUES AND EXPENSES

The Organization's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Organization's Business Fund and the Foundation Fund consist of management services, member dues, conferences, rentals and unrestricted contributions and the cost of providing these services. Investment income is reported as nonoperating.

NOTE 8 – GOVERNMENT-WIDE AND PROPRIETARY FUND NET ASSETS

Government-wide and proprietary fund net assets are divided into three components:

- Investment in capital assets, cost of capital assets less accumulated depreciation.
- Restricted net assets-consist of net assets that are restricted by the Organization or by the state and federal enabling legislation.
- Unrestricted-all other net assets are reported in this category.

NOTE 9 – GOVERNMENTAL FUND BALANCES

In the governmental fund financial statements, fund balances are classified as follows:

- Restricted-Amounts that can be spent only for specific purposes because of state or federal laws or externally imposed conditions by grantors.

NOTE 10 – PURPOSE OF DUE TO/FROM OTHER FUNDS

Due to/from transactions are used for short term interfund loans. The outstanding balance for the grant fund is the result of a time lag between the date the grant revenue was received and the date the qualifying expenditure was made.

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

NOTE 11 – CAPITAL ASSETS SCHEDULE

Capital assets for the year ending June 30, 2012 is as follows:

	Balance at June 30, 2011	Additions	Deductions	Balance at June 30, 2012
Governmental Activities:				
Capital assets:				
Leasehold improvements	\$ 1,630,000	\$ -	\$ -	\$ 1,630,000
Equipment	481,854			481,854
Vehicle	33,062	21,492		54,554
Total capital assets	<u>2,144,916</u>	<u>21,492</u>		<u>2,166,408</u>
Less accumulated depreciation for:				
Leasehold improvements	312,417	81,500	-	393,917
Equipment	265,565	88,518		354,083
Vehicles	2,301	5,951		8,252
Total accumulated depreciation	<u>580,283</u>	<u>175,969</u>		<u>756,252</u>
Government activities capital assets, net	<u>1,564,633</u>	<u>(154,477)</u>		<u>1,410,156</u>

Depreciation expense was charged to functions as follows in the Statement of Activities:

Governmental Activities:	
Training Center	175,969
Total governmental activities depreciation expense	<u>\$ 175,969</u>

NOTE 12 - LEASE COMMITMENTS

On September 1, 2007 ILEAS entered into a lease agreement with Champaign County, Illinois. The premises leased is approximately 23 acres, including a 120,000 square foot building and a 5 bay garage located at 1701 East Main Street, Urbana, Illinois. The term of the lease (3 years) commenced on September 1, 2007 and was to expire on December 31, 2010. ILEAS made a lump-sum lease payment of \$1,200,000. The lease provides ILEAS with two options of three years each to enter into a new lease agreement.

On April 1, 2009 the original lease was amended and extended to December 31, 2011. On November 1, 2009 a new lease amendment extends the lease until December 31, 2012. In consideration for the lease extension, ILEAS will pay \$419,000. The original "OPTION TO REOPEN" will continue in force starting with two-three year options to reopen; the first three year option beginning on January 1, 2013.

A schedule of prepaid lease payments and lease expense is as follows:

Year Ended	Lease Expense	Prepaid Lease
June 30, 2012	359,500	628,500
June 30, 2013	419,000	209,500
June 30, 2014	209,500	-

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
Notes to Financial Statements
June 30, 2012

NOTE 13 - RISK MANAGEMENT

ILEAS is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. In order to protect against such losses, ILEAS has purchased insurance from private insurance companies. The amount of coverage has not decreased nor have the amount of settlements exceeded coverage levels in place during any of the past three years. Insurance expense for the year ended June 30, 2012 was \$48,460.

NOTE 14 - CONTINGENCIES

Litigation

As of June 30, 2012, ILEAS did not have any pending litigation or potential nondisclosed liabilities.

NOTE 15 – EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through February 5, 2013, the date which the financial statements were available to be issued.

**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**

To the Board of Directors
Illinois Law Enforcement Alarm System

We have audited the financial statements of the governmental activities and the business-type activities of the Illinois Law Enforcement Alarm System as of and for the year ended June 30, 2012, which collectively comprise Illinois Law Enforcement Alarm System's basic financial statements and have issued our report thereon dated February 5, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of Illinois Law Enforcement Alarm System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Illinois Law Enforcement Alarm System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois Law Enforcement Alarm System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Illinois Law Enforcement Alarm System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (item 2012-01). *A significant deficiency* is a deficiency, or a 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Illinois Law Enforcement Alarm System'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2012-01.

Illinois Law Enforcement Alarm System's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Illinois Law Enforcement Alarm System's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of directors and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fig 1 & Fig 2. L.L.P.

Springfield, Illinois

February 5, 2013

LEGG & LEGG, LLP

Certified Public Accountants

Billy L. Legg, CPA

James C. Legg, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Illinois Law Enforcement Alarm System

Compliance

We have audited Illinois Law Enforcement Alarm System'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 Illinois Law Enforcement Alarm Systems major federal programs for the year ended June 30, 2012. Illinois Law Enforcement Alarm System's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Illinois Law Enforcement Alarm System's management. Our responsibility is to express an opinion on Illinois Law Enforcement Alarm System's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Government, 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 Illinois Law Enforcement Alarm System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Illinois Law Enforcement Alarm System's compliance with those requirements.

In our opinion, Illinois Law Enforcement Alarm System complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2012-01.

Internal Control over Compliance

Management of Illinois Law Enforcement Alarm System is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Illinois Law Enforcement Alarm System's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Illinois Law Enforcement Alarm System's internal control over compliance.

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A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Illinois Law Enforcement Alarm System's response to the findings identified in our audit are described in the accompany schedule of findings and questioned costs. We did not audit Illinois Law Enforcement Alarm System's response and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, board of directors, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than specified parties.

Jagg, & Jagg L.L.P.

Springfield, Illinois

February 5, 2013

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed through Illinois Emergency Management Agency:			
2008 State Homeland Security Program	97.067	108ILEASBMA	14,890
		208ILEASEQU	438,912
		108ILEASMFF	824
		108ILWMDSRT	1,997
2009 State Homeland Security Program	97.067	209ILEASADM	2,038
		209ILEASBMA	174,373
		209ILEASCON	80,575
		209ILEASEDU	57,339
		209ILEASEOC	757,171
		209ILEASEXE	1,887
		209ILEASGEN	696,995
		209ILEASIMT	128,983
		209ILEAPRND	64,346
		209ILEASSEC	245,787
		209ILEASSRT	933,327
		209EXEILEAS	22,499
		2009ILECRED	11,741
		209ILEFIBER	452,895
		209ILEGLHSC	21,560
		209ILEINTEL	8,584
		209ILEPORTS	221,966
		209ILRADIO2	35,126
2010 State Homeland Security Program	97.067	210ILEASCON	80,503
		210ILEASADM	269,012
		2010ILICRED	309,743
		2101ILEASEOC	396,494
		210ILEASEQU	247,690
		210ILEASLMS	47,024
		210ILEASIMT	45,194
		210ILEASMST	871
		210ILEASOTB	1,648,165
		210ILEASRAD	2,462
		210ILEASSEC	7,150

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Expenditures
2010 State Homeland Security Program	97.067	210ILEASSRT	1,489,928
		210ILEASUCP	758,352
		210ILEIMERT	8,281
		210ILIPWMAN	16,676
2011 State Homeland Security Program	97.067	211ILEASADM	17,966
		211ILEASCON	5,796
		211ILEASSRT	850
		211ILEEMNET	77,683
		211ILEIMERT	27,894
2009 Urban Area Security Initiative	97.067	209UASIILEA	17,531
2010 Urban Area Security Initiative	97.067	210UASIILEA	74,101
Total			9,923,181
2009 Interoperable Emergency Communications Program	97.001	209IECGPILE	532,853
Total			532,853
2010 Interoperable Emergency Communications Program	97.005	210IECGPILE	45,590
Total			45,590
Total U.S. Department of Homeland Security			10,501,624
TOTAL EXPENDITURES OF FEDERAL AWARDS			10,501,624

**ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEARS ENDED JUNE 30, 2012**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Illinois Law Enforcement Alarm System and is presented on the 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 basic financial statements.

NOTE B – SUMMARY OF CFDA TOTALS

<u>CFDA Number</u>	<u>Total Expenditures</u>
97.001	532,853
97.005	45,590
97.067	<u>9,923,181</u>
Total Expenditures of Federal Awards by CFDA Number <u>\$ 10,501,624</u>	

NOTE C – SUBRECIPIENTS

The Organization provided no amount to subrecipients from federal programs.

NOTE D – NONMONETARY ASSISTANCE

The Organization did not receive non-cash assistance, federal insurance coverage or loan guarantees during the year.

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section I – Summary Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es) ☒ yes ☐ none reported
- Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Reportable condition(s) identified that are not considered to be material weakness(es): ☒ yes ☐ none reported

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

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

**ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2012**

Identification of major programs:

CFDA Number (s)	Name of Federal Program or Cluster
97.067	State Homeland Security Program
97.067	Urban Area Security Initiative
97.001	Interoperable Emergency Communications Program
97.005	Interoperable Emergency Communications Programs

**Dollar threshold used to distinguish between
Type A and Type B programs:**

\$ 300,000

Auditee qualified as low-risk auditee:

yes X no

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012

Section II - Financial Statements Findings

Finding Number: 2012-01

Federal Department: U.S. Department of Homeland Security
CFDA Number: 97.067
Program Name: 2010 State Homeland Security Program

1. Condition:

All personnel are paid as independent contractors during the period of July 1, 2011 thru December 31, 2011.

2. Criteria/specific requirements:

The Internal Revenue has specific facts in the determination of an employee or an independent contractor.

3. Questioned Costs:

4. Cause:

Management not aware if grant funds can be used for employee salaries.

5. Effect:

The organization could be liable for payroll taxes to Internal Revenue Service if personnel are determined to be employees.

6. Recommendation:

Review publication 15-A section two on who is considered an employee or independent contractor. Form SS-8 can be filed with the Internal Revenue Service for determination of the status of a worker for the purpose of federal employment taxes and income tax withholding.

7. Management's Response:

Management has consulted an attorney to review employee and independent contractor determination and grant requirements. Management implemented an employee payroll system on January 1, 2012.

Section III – Federal Award Findings and Questioned Costs

FINDING NO. 2012-01

See Section II – Financial Statement Findings No. 2012-01

ILLINOIS LAW ENFORCEMENT ALARM SYSTEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2012

Finding Number 2011-01

Repeated in current year. See Finding 2012-01.