

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)

Financial Audit

For the Years Ended June 30, 2008 and 2007

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT
For the Years Ended June 30, 2008 and 2007

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STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
For the Years Ended June 30, 2008 and 2007

AGENCY OFFICIALS

Vice President for Advancement Illinois Mathematics and Science Academy, Secretary, IMSA Fund (5/01/07 - Current)	Ms. Suzyn M. Price
Director of Operations for Advancement and IMSA Fund (11/12/2007 – Current)	Mr. Thomas Walter
Director of Operations for Advancement and IMSA Fund (7/24/07 – 11/12/2007)	Vacant
Director of Operations for Advancement and IMSA Fund (Resigned 7/24/07)	Ms. Lois Harris

BOARD OF DIRECTORS

President	Mr. Gregory K. Jones
Vice President	Mr. John Hoesley
Treasurer	Mr. John Hoesley
Secretary	Ms. Suzyn M. Price

Directors

Ms. Pamela Blackwell	Ms. Vanessa C. Gage	Ms. Stephanie Pace Marshall
Mr. Ronald Bullock	Ms. Jean K. Holley	Mr. Michael Sloan
Mr. G. Thomas Castino	Ms. Chelsy A. Hopper	Mr. Jarvis Yeh
Mr. Benjamin Chelf	Mr. Herbert B. Knight	Ms. Marlene Young-Peel
Mr. Martin J. DiMarzio	Mr. Fidel Marquez, Jr.	

Agency Offices are located at:

1500 W. Sullivan Road
Aurora, Illinois 60506 –1000

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
For the Years Ended June 30, 2008 and 2007

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the IMSA Fund for Advancement of Education was performed by the staff of the Office of the Auditor General.

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Agency's internal control over financial reporting that they considered to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 25-26 of this report, as finding 08-1, Insufficient Controls Over Financial Reporting.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Fund personnel at an exit conference on June 1, 2009. Attending were:

	<u>IMSA Fund for Advancement of Education</u>	
Suzyn M. Price		Vice President for Advancement
Thomas Walter		Director of IMSA Fund Business Services
Jane Overstreet		IMSA Fund Bookkeeper
Paul Malina		Consultant
	<u>Office of the Auditor General</u>	
Alison Schertz		Audit Manager
Jose G. Roa		Audit Supervisor

Responses to the recommendations were provided by Thomas Walter, Director of IMSA Fund Business Services, in correspondence dated May 29, 2009.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

And

Board of Trustees
IMSA Fund for Advancement of Education
Aurora, Illinois

We have audited the accompanying financial statements of the business-type activities of the IMSA Fund for Advancement of Education (a component unit of the State of Illinois), as of and for the years ended June 30, 2008 and June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the IMSA Fund for Advancement of Education's management. Our responsibility is to express opinions on these financial statements based on our audit.

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


In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the IMSA Fund for Advancement of Education, as of June 30, 2008 and 2007, and the changes in net assets and cash flows, where applicable, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 2, 2009 on our consideration of the IMSA Fund for Advancement of Education's internal control

over financial reporting and on our tests of IMSA Fund for Advancement of Education's compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 5 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The IMSA Fund for the Advancement of Education has not presented budgetary comparison information that the accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.


Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

June 2, 2009

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS

The purpose of this analysis is to provide an objective and easy to read analysis of the IMSA Fund for Advancement of Education's (Fund) Financial Statements based on currently known facts, decisions, and/or conditions. These financial statements are the responsibility of management and should be read in conjunction with the footnotes as a complete financial report. For the year ending June 30, 2008 the Fund has also included a Statement of Cash Flows to aid in reporting and providing transparency to its reports. All condensed statements in this section have consolidated line items in order to provide summations to all numbers.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Fund as of the end of the fiscal year (essentially a fiscal snapshot of the Fund as of that point in time). Readers are able to determine the assets available to continue the Fund's operations as well as determine the amount the Fund owes its vendors.

Pledges Receivable

This amount reflects pledges, treated as voluntary nonexchange transactions, received by the Fund in the current year, which meet all of the eligibility requirements under GASB Statement No. 33.

Net Assets

Net assets are divided into three major categories. Unrestricted net assets include amounts not subject to donor-imposed stipulations and include all of the activities of the Fund, except for those amounts that are restricted by external donors. Restricted expendable net assets include amounts that are subject to donor-imposed stipulations. These stipulations limit the use of the resources for specific purposes. Restricted nonexpendable net assets are to be held and invested in perpetuity with earnings thereof to be used for purposes as determined by donors making the contribution.

STATE OF ILLINOIS
 IMSA FUND FOR ADVANCEMENT OF EDUCATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

CONDENSED STATEMENT OF NET ASSETS

June 30,

	2008	2007
ASSETS		
Cash and Cash Equivalents	\$ 763,356	\$ 783,095
Investments	3,149,798	2,860,345
Accounts Receivable/Contribution Advances	138,157	32,008
Prepaid Expenses	5,423	4,183
Pledges Receivable	186,118	143,149
TOTAL ASSETS	\$ 4,242,852	\$ 3,822,780
LIABILITIES		
Accounts Payable/Due to IMSA	\$ 43,400	\$ 19,610
TOTAL LIABILITIES	\$ 43,400	\$ 19,610
NET ASSETS		
Unrestricted Net Assets	\$ 1,837,330	\$ 1,666,504
Restricted Net Assets, Expendable	2,330,122	2,131,666
Restricted Net Assets, Nonexpendable	32,000	5,000
TOTAL NET ASSETS	\$ 4,199,452	\$ 3,803,170

Fiscal year ended June 30, 2008 ended with an increase in net assets of \$396,282. This increase includes the results of the annual giving campaign and levels of Academy support consistent with recent years.

Fiscal year ended June 30, 2007 ended with an increase in net assets of \$703,540. This increase includes results of the annual giving campaign, contributions made during the IMSA20 celebration, and contributions to the newly established endowment. Expenditures also decreased.

STATE OF ILLINOIS
 IMSA FUND FOR ADVANCEMENT OF EDUCATION
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MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Revenues, Expenses, and Changes in Net Assets

The purpose of the Statement of Revenues, Expenses, and Changes in Net Assets is to present the revenues received by the Fund, both operating and non-operating, and expenses paid by the Fund. Revenues primarily consist of contributions to the Fund and registration fees. Expenses consist of amounts paid to support and carry out the mission of the Fund.

**CONDENSED STATEMENT OF REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS**
 For the Years Ended June 30,

	2008	2007
REVENUES		
Operating Revenues		
Contributions	\$ 942,839	\$ 1,148,553
Operating Agreement with Academy	271,924	208,807
Investment Income	115,087	115,305
Other Operating Revenues	42,789	9,258
TOTAL REVENUES	\$ 1,372,639	\$ 1,481,923
 EXPENSES		
Operating Expenses		
Academy Support	\$ 561,977	\$ 607,198
Management and General	101,563	56,423
Fundraising	47,122	85,402
Operating Agreement with Academy	271,924	208,807
TOTAL EXPENSES	\$ 982,586	\$ 957,830
 Other Revenues and Expenses	6,229	179,447
 CHANGE IN NET ASSETS	\$ 396,282	\$ 703,540
 NET ASSETS – BEGINNING OF YEAR	3,803,170	3,099,630
 NET ASSETS – END OF YEAR	\$ 4,199,452	\$ 3,803,170

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Contributions

The total contribution received by the Fund decreased 18% from fiscal year 2007 to fiscal year 2008 due to the results of an annual giving campaign that was centered on general fundraising support to be targeted towards areas of need in the Academy.

Investment Income

Investment income (not including unrealized gains and losses) decreased by an immaterial amount from fiscal year 2007 to fiscal year 2008 due to the economic environment and investing strategies between years. Unrealized losses on investments were \$19,771 for fiscal year 2008.

Expenses

Management, general and fundraising expenses increased from \$141,825 in fiscal year 2007 to \$148,685 in fiscal year 2008. This \$6,860 increase (5%) is the result of increased expenses incurred in the areas of consulting and systems improvement.

The Fund disbursed \$561,977 and \$607,198 in fiscal years 2008 and 2007 in direct support to the Academy.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Statement of Cash Flows

The Fund introduces the Statement of Cash Flows to define cash provided from operations, investing and financing activity. The Fund does not conduct any financing activity and reports only on operations and investing. As listed in this statement, a decrease in cash and cash equivalents has been reported in the last two fiscal years.

STATEMENT OF CASH FLOWS

For the Years Ended June 30,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	\$ 1,123,120	\$ 1,404,576
Interest and Dividends Received	115,087	115,305
Cash Paid to Grantee, Suppliers and Employees	(948,722)	(1,036,574)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 289,485	\$ 483,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Payment for the Purchase of Investments	\$(2,281,866)	\$(2,782,780)
Cash Proceeds from Sale of Investments	1,972,642	1,909,545
NET CASH USED IN INVESTING ACTIVITIES	\$ (309,224)	\$ (873,235)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (19,739)	\$ (389,928)
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	783,095	1,173,023
END OF YEAR	\$ 763,356	\$ 783,095

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Outlook

During this reporting period, there have been significant fluctuations in the overall economy and financial market uncertainties have spread. Losses in the stock market affected nearly every sector. The Fund invests in various investment securities. However, during this time investments securities were exposed to various risks such as interest rate, market and credit risks.

The Fund became aware of decreases in investments during the fourth quarter of the fiscal year. Steps were taken to maintain a higher cash balance because of the downturn in investments. Investment declines are expected to have a significant effect on the financial position and results of operations during the next fiscal year.

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STATEMENT OF NET ASSETS
 June 30,

	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 763,356	\$ 783,095
Investments	3,117,798	2,855,345
Accounts Receivable	91,503	27,964
Contribution Advances	46,654	4,044
Prepaid Expenses	5,423	4,183
Pledges Receivable	156,118	135,149
Total Current Assets	<u>4,180,852</u>	<u>3,809,780</u>
Non-Current Assets		
Endowment Investments	32,000	5,000
Pledges Receivable	30,000	8,000
Total Non-Current Assets	<u>62,000</u>	<u>13,000</u>
TOTAL ASSETS	<u>\$ 4,242,852</u>	<u>\$ 3,822,780</u>
LIABILITIES		
Accounts Payable	6,786	5,098
Due to IMSA	36,614	14,512
TOTAL LIABILITIES	<u>\$ 43,400</u>	<u>\$ 19,610</u>
NET ASSETS		
Unrestricted Net Assets	1,837,330	1,666,504
Restricted Net Assets, Expendable	2,330,122	2,131,666
Restricted Net Assets, Nonexpendable	32,000	5,000
TOTAL NET ASSETS	<u>\$ 4,199,452</u>	<u>\$ 3,803,170</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,242,852</u>	<u>\$ 3,822,780</u>

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

STATE OF ILLINOIS
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STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 For the Years Ended June 30,

	<u>2008</u>	<u>2007</u>
REVENUES		
Operating Revenues		
Contributions	\$ 845,946	\$ 1,145,022
Operating Agreement with Academy	271,924	208,807
Investment Income	115,087	115,305
In-Kind Contributions of Goods and Equipment	96,893	3,531
Other Operating Revenues	30,076	0
Program Fees	12,713	9,258
Total Revenues	<u>\$ 1,372,639</u>	<u>\$ 1,481,923</u>
EXPENSES		
Operating Expenses		
Academy Support	561,977	607,198
Management and General	101,563	56,423
Fundraising	47,122	85,402
Operating Agreement with Academy	271,924	208,807
Total Expenses	<u>\$ 982,586</u>	<u>\$ 957,830</u>
Non-Operating (Expenses) Revenues		
Net (Losses) Gains on Investments	(19,771)	174,447
Net Non-Operating (Expenses) Revenues	<u>\$ (19,771)</u>	<u>\$ 174,447</u>
Gains Before Other Revenues	<u>370,282</u>	<u>698,540</u>
Contributions to Permanent Endowments	26,000	5,000
Total Other Revenues	<u>\$ 26,000</u>	<u>\$ 5,000</u>
CHANGE IN NET ASSETS	\$ 396,282	\$ 703,540
NET ASSETS - BEGINNING OF YEAR	<u>3,803,170</u>	<u>3,099,630</u>
NET ASSETS - END OF YEAR	<u>\$ 4,199,452</u>	<u>\$ 3,803,170</u>

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

STATE OF ILLINOIS
 IMSA FUND FOR ADVANCEMENT OF EDUCATION
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STATEMENT OF CASH FLOWS
 For the Year Ended June 30,

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	\$ 1,123,120	\$ 1,404,576
Interest and Dividends Received	115,087	115,305
Cash Paid to Grantee, Suppliers and Employees	(948,722)	(1,036,574)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 289,485	\$ 483,307
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Payment for the Purchase of Investments	(2,281,866)	(2,782,780)
Cash Proceeds from Sale of Investments	1,972,642	1,909,545
NET CASH USED IN INVESTING ACTIVITIES	\$ (309,224)	\$ (873,235)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (19,739)	\$ (389,928)
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	783,095	1,173,023
END OF YEAR	\$ 763,356	\$ 783,095
RECONCILIATION OF CHANGE IN NET ASSETS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in Net Assets	\$ 396,282	\$ 703,540
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Realized Losses (Gains) on Sales of Investments	129,008	(85,586)
Unrealized Gains on Investments	(109,237)	(88,272)
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(63,539)	7,532
Contribution Advances	(42,610)	24,324
Prepaid Expenses	(1,240)	(2,944)
Pledges Receivable	(42,969)	(52,095)
Accounts Payable	1,688	(12,704)
Due to IMSA	22,102	(10,488)
Total Adjustments	\$ (106,797)	\$ (220,233)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 289,485	\$ 483,307

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE A – ORGANIZATION

The IMSA Fund for Advancement of Education (IMSA Fund) is a nonprofit 501(c)(3) corporation established and maintained for the purposes of benefiting, performing the functions of, or carrying out certain charitable, educational, literary and scientific purposes of the Illinois Mathematics and Science Academy (Academy). The Academy was created through an Act of the State of Illinois General Assembly to offer a uniquely challenging education for students talented in the areas of mathematics, science, and technology. The Academy also functions as a laboratory for the development and testing of new techniques of mathematics, science, and humanities teaching for secondary schools throughout Illinois. Providing support to and on behalf of the Academy is the IMSA Fund's primary program service. Funding for this program service is derived from contributions from various individuals, corporate and foundation donors located primarily within the United States.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of IMSA Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of the data included in the financial statements, the more significant accounting policies are summarized below.

1. Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the IMSA Fund has no component units, but is a component unit of the State of Illinois. GASB Statement No. 39, implemented by the State, provided criteria for determining whether certain organizations should be reported as component units based on the nature and significances of their relationship with a primary government. The criteria are listed below:

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NOTES TO FINANCIAL STATEMENTS
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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Financial Reporting Entity – (Continued)

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- 2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

The IMSA Fund for Advancement of Education, which was determined to be a component unit of the State of Illinois, is combined and discretely presented on the State of Illinois' financial statements. The State of Illinois Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

2. Basis of Accounting

For financial reporting purposes, the Fund is considered a special-purpose government engaged only in business-type activities. Accordingly, the accompanying financial statements of the Fund have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses when a liability has been incurred.

3. Basis of Presentation

In accordance with GASB Statement No. 20, the Fund is required to follow all applicable GASB pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

4. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash in banks, as well as money market funds held in an investment account in the name of IMSA Fund for Advancement of Education.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investments

Effective July 1, 2004, the IMSA Fund adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This GASB statement provides disclosure requirements related to investment risks: credit risk, interest rate risk, and foreign currency risk. Accordingly, these disclosures have been made in Note C – Deposits and Investments.

6. Classification of Revenues

The Fund has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues include activities that have the characteristics of exchange transactions or that are part of the Fund's mission to raise funds for the Academy, such as gifts, contributions and other revenues generated in support of the Academy, per contractual agreement with the Academy.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as unrealized gain or loss on investments and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

7. Net Assets

In the financial statements, equity is displayed in two components as follows:

Restricted – this consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – this consists of net assets that do not meet the definition of "restricted".

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

9. Reclassifications

Certain prior year amounts have been reclassified to conform with current year presentations.

NOTE C – DEPOSITS AND INVESTMENTS

IMSA Fund independently manages its cash and cash equivalents maintained outside the State Treasury.

Cash on deposit and cash on hand for locally held funds had a carrying amount of \$520,895 and \$632,572 and a bank balance of \$522,126 and \$656,182 at June 30, 2008 and 2007, respectively.

A. Deposits

Petty Cash – Cash on hand at June 30, 2008 and 2007 totaled \$200 and \$200, respectively.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned. Of the total bank balances for locally held funds, \$100,000 was insured through the Federal Depository Insurance Corporation (FDIC). Balances over \$100,000 were swept to an investment fund and collateralized with pooled securities held in the name of the financial institution and not that of the State.

B. Investments

The primary objective of investment activities shall be to prudently preserve and grow financial assets of the IMSA Fund. IMSA Fund's Investment Policy has the following guidelines 1) diversify the portfolio to minimize losses and to maximize appreciation and income; 2) use only investment grade instruments; and 3) stagger maturity dates to minimize yield risk.

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NOTES TO FINANCIAL STATEMENTS
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NOTE C – DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Investments at June 30, 2008 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		No Maturity Date	Less Than 1	1-5	6-10
Corporate Debt Securities	\$ 449,931	\$ -	\$ 106,072	\$ 269,441	\$ 74,418
Corporate Equity	1,940,719	1,940,719	N/A	N/A	N/A
U.S. Treasuries	262,289	-	88,259	173,568	462
U.S. Agency Obligations	496,858	-	4,798	492,060	-
Total	<u>\$ 3,149,797</u>	<u>\$1,940,719</u>	<u>\$ 199,129</u>	<u>\$ 935,069</u>	<u>\$ 74,880</u>

Investments at June 30, 2007 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		No Maturity Date	Less Than 1	1-5	6-10
Corporate Debt Securities	\$ 543,307	\$ -	\$ 125,200	\$ 271,274	\$ 146,833
Corporate Equity	1,575,331	1,575,331	N/A	N/A	N/A
U.S. Treasuries	321,481	-	176,474	70,404	74,603
U.S. Agency Obligations	420,226	-	30,386	389,840	-
Total	<u>\$ 2,860,345</u>	<u>\$1,575,331</u>	<u>\$ 332,060</u>	<u>\$ 731,518</u>	<u>\$ 221,436</u>

The Fund's investments at June 30, 2008 and 2007 include uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name.

	<u>2008</u>	<u>2007</u>
Net realized gains (losses) on disposition of investments	(\$129,008)	\$ 85,586
Net unrealized gains (losses)	<u>109,237</u>	<u>88,272</u>
Total net gains (losses) on investments	<u>(\$ 19,771)</u>	<u>\$ 173,858</u>

Money Market Funds: Additional money market funds (cash equivalents) for locally held funds held in an investment account had a carrying amount and fair market value of \$242,460 and \$150,523 at June 30, 2008 and 2007, respectively. For purposes of the disclosure, money market funds held by investment managers are considered to be deposits, but these funds are not subject to custodial credit risk. These funds have maturities of less than 90 days, and had a weighted

average to maturity of approximately 0.167 at June 30, 2008. No rating information is available for these funds.

STATE OF ILLINOIS
 IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
NOTES TO FINANCIAL STATEMENTS
 June 30, 2008 and 2007

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

B. Investments (Continued)

Corporate Debt Securities: IMSA Fund’s investment policy precludes the Fund from investing in bonds with a credit rating of less than A by Standard & Poor’s. As of June 30, 2008, the Fund’s investments in corporate debt securities were rated A to AAA.

<u>Standards & Poor’s Rating</u>	<u>2008 Fair Market Value</u>	<u>Standards & Poor’s Rating</u>	<u>2007 Fair Market Value</u>
AAA	\$ 26,537	AAA	\$ 49,757
AA	75,131	AA	73,503
AA-	150,979	AA-	223,200
A+	124,555	A+	<u>196,847</u>
A	<u>72,729</u>	Total	<u>\$ 543,307</u>
Total	<u>\$ 449,931</u>		

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment’s value. The IMSA Fund has maintained its funds in highly liquid investments, but has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations. The IMSA Fund currently holds no investments with substantial credit risk.

NOTE D – RECEIVABLES

Accounts receivable are expected to be collected within one year; therefore, an allowance for doubtful accounts has not been calculated.

Outstanding pledges are reflected in the accompanying financial statements for those promises/pledges to give for which all time and other eligibility requirements have been met as provided for in GASB Statement No. 33. At June 30, 2008 and 2007, pledges receivable were \$186,118 and \$143,149, respectively. Of this amount \$156,118 will be received during the year ended June 30, 2009 and \$30,000 will be received during the year ending June 30, 2010. Pledges are shown net of estimated uncollectible amounts.

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE E – RELATED PARTY TRANSACTIONS

Effective August 29, 1996, IMSA Fund entered into an agreement with the Illinois Mathematics and Science Academy (Academy), which specifies the relationship between the two organizations. This agreement states that IMSA Fund is a separate corporate entity established primarily for the purpose of benefiting, performing the functions of, and carrying out certain charitable, educational, literary and scientific purposes of the Academy, and to assist the Academy in achieving and furthering its educational, research, and service goals. IMSA Fund has agreed to provide financial support to the Academy (both directly and indirectly) and in exchange, the Academy has agreed to provide office space, equipment and personnel to enable the IMSA Fund to accomplish its purposes.

Both organizations acknowledge that State resources should not be used to provide for fundraising activities, which do not result in a value to the Academy of the same or greater value than what the Academy receives directly from the IMSA Fund. As long as the Academy receives direct or indirect program support from the IMSA Fund, which is greater than the fundraising costs the Academy incurs on behalf of IMSA Fund, no reimbursement shall occur. If in any fiscal year those fundraising costs are greater than the program support provided to the Academy, IMSA Fund will reimburse the Academy for the excess of the fundraising costs over the program support provided. For fiscal year 2008 and 2007, total program support provided to the Academy by IMSA Fund was \$561,977 and \$607,198, respectively. The total fundraising cost incurred by the Academy for the IMSA Fund was approximately \$271,924 and \$208,807 respectively.

At June 30, 2008 and June 30, 2007, the amounts of equipment donations received and purchases made by IMSA Fund for the Academy were \$9,887 and \$3,531, respectively.

At June 30, 2008 and 2007, accounts payable due to the Academy included \$36,614 and \$14,512, respectively. At June 30, 2008 and 2007, accounts receivable due from the Academy included \$91,503 and \$27,964, respectively.

At June 30, 2008 and 2007, contribution advances included \$46,654 and \$4,044 due from the Academy, respectively.

STATE OF ILLINOIS
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NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE E – RELATED PARTY TRANSACTIONS (Continued)

Other Related Parties

IMSA Fund recognized contribution revenue from members of the IMSA Fund Board of Trustees and the Academy Board of Trustees and those members' affiliated corporations and foundations in the amount of \$92,875 and \$177,230, during the years ended June 30, 2008 and 2007, respectively. Unrecorded in-kind contributions were \$0 and \$0 in both years.

NOTE F – CONTINGENCIES – GRANTS

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although IMSA Fund expects such amounts, if any, to be immaterial.

NOTE G – INCOME TAXES

IMSA Fund for Advancement of Education is a non-profit organization, which has been granted a tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. IMSA Fund is required to pay federal and state income taxes only on its net unrelated business income. A provision for income taxes was not required for the years ended June 30, 2008 and 2007.

NOTE H – DONOR RESTRICTED ENDOWMENTS

The Fund established an endowment fund during the year ended June 30, 2007. The principal of the endowment will not be expended, and is reported on the Statement of Net Assets as restricted nonexpendable net assets. As permitted by state law, a distribution from investment earnings will be made available for purposes designated by the IMSA Fund Board of Directors from the endowment fund. The only authorized disbursements for the years ended June 30, 2008 and 2007 were designated for investment management fees. Any portion of the annual, distributable funds not distributed in any given year will be retained in the Endowment Fund in a pool of funds spendable in future years. The net appreciation on investments of donor-restricted endowments was \$0, which is reported as restricted expendable net assets on the Statement of Net Assets. As of June 30, 2008, a policy has not been established for the disbursement of endowment funds, such as a spending-rate or total-return policy.

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
NOTES TO FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE I – OPERATING AGREEMENT WITH ACADEMY

The Academy provides personnel and office space to the Fund, and provides for additional costs such as equipment, utilities, and maintenance costs. The Statement of Revenues, Expenses and Changes in Net Assets for the years ended June 30, 2008 and 2007 reflects the estimated value of non-cash compensation of \$271,924 and \$208,807, respectively provided by the Academy for personnel, office space, furnishings, equipment, utilities, and maintenance.

NOTE J – SUBSEQUENT EVENT

Ongoing and recent market conditions have resulted in an unusually high degree of volatility and increased the risks and short term liquidity associated with certain investments held by the Fund which have adversely impacted the value of investments after the date of these financial statements. As of December 31, 2008, due to fluctuations in the overall economy, the market value of the Funds investments has declined by \$666,000 or 25%.

NOTE K – FUND RECLASSIFICATION

The IMSA Fund for Advancement of Education was previously classified as a special revenue fund (governmental activity) to and enterprise fund (business-type activity). The fund classification was revaluated during the current period and it was determined the business-type classification is most definitive in representing the reporting entity. The reclassification had no effect on net assets or on the change in net assets of the fund.

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OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

Honorable William G. Holland
Auditor General
State of Illinois

And

Board of Trustees
IMSA Fund for Advancement of Education
Aurora, Illinois

We have audited the financial statements of the business-type activities of the IMSA Fund for Advancement of Education (a component unit of the State of Illinois) as of and for the year ended June 30, 2008, which collectively comprise the IMSA Fund for Advancement of Education's basic financial statements and have issued our report thereon dated June 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IMSA Fund for Advancement of Education's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, and not for the purpose of expressing an opinion on the effectiveness of the IMSA Fund for Advancement of Education's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the IMSA Fund for Advancement of Education's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control

over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting as detailed in finding 08-1.

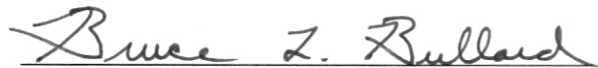
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IMSA Fund for Advancement of Education'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*.

IMSA Fund for Advancement of Education's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit IMSA Fund for Advancement of Education's response and, accordingly, we express no opinion on it.



Bruce L. Bullard, CPA
Director of Financial and Compliance Audits

June 2, 2009

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
For the Years Ended June 30, 2008 and 2007

08-1. **FINDING** (Insufficient Controls Over Financial Reporting)

The IMSA Fund for Advancement of Education (Fund) did not have sufficient controls over the financial reporting process.

During testing, numerous adjustments were required to be made. The adjustments were as follows:

- The Fund included two items, totaling \$25,792, in both accounts payable and due to IMSA. As a result, the Fund overstated both accounts payable and academy support expenses.
- During FY08, the Fund made changes to reflect the estimated value of non-cash compensation provided by the Illinois Mathematics and Science Academy (Academy) to the Fund which were not previously recorded. As a result, the operating agreement with the Academy increased by \$20,794.
- The Fund received a deposit for one of the three endowment accounts during FY08. The receipt was deposited into the restricted account but recorded as a contribution to permanent endowment. As a result, the Fund understated restricted contributions by \$1,000 and overstated contributions to permanent endowment by \$1,000.
- There were two instances in which the Fund's financial statements did not match their audited trial balance:
 - Unrestricted net assets were overstated by \$6,151 and restricted/endowment net assets were understated by \$6,151.
 - Cash was overstated by \$656 and investments were understated by \$656.
- As a result of the above adjustments, restricted net assets was understated by an additional \$25,792.

The Fund's Board of Directors and management share the ultimate responsibility for the Fund's internal control over financial reporting. This responsibility should include an adequate system of review in the completeness and accuracy of the Fund's financial statements and disclosures to ensure that the financial statements are presented in accordance with accounting principles generally accepted in the United States of America.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Fund establish and maintain a system or systems of internal fiscal and administrative controls which would include the accurate preparation of financial reports.

Failure to apply the applicable accounting principles generally accepted in the United States of America could result in misstatements in the financial statements. (Finding Code No. 08-1)

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
For the Years Ended June 30, 2008 and 2007

RECOMMENDATION

We recommend internal controls over financial reporting be strengthened to ensure presentation of financial reports, including financial report components, are in accordance with generally accepted accounting principles.

FUND RESPONSE

The Fund has initiated enhanced internal controls over the course of the current fiscal year to address auditor findings. These enhancements included the implementation of a new accounting software system activated on July 1, 2008 and the ongoing development and enhancement to written internal control procedures.

STATE OF ILLINOIS
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PRIOR FINDINGS NOT REPEATED
For the Years Ended June 30, 2008 and 2007

A. **FINDING** (Noncompliance with Investment Policy)

During the prior period, the IMSA Fund for Advancement of Education (Fund) did not maintain investments within the allocation parameters stipulated in their investment policy.

During the current period, the Fund had a new policy that gave the Director authority to invest their funds at a higher interest rate, which allowed the investments to be set out of the parameters. The Fund was in compliance with the new policy during the fiscal year. (Finding Code No. 07-1)