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, 2010 AND 2009

Performed as Special Assistant Auditors
For the Auditor General, State of Illinois

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, 2010 and 2009

TABLE OF CONTENTS

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
For the Years Ended June 30, 2010 and 2009

AGENCY OFFICIALS

Vice President for Advancement Illinois Mathematics and Science Academy, Secretary, IMSA Fund	Ms. Suzyn M. Price
Director of Operations for Advancement and IMSA Fund	Mr. Thomas Walter

BOARD OF DIRECTORS

Officers

Chairman	Mr. Gregory K. Jones
President (to 7/22/2010)	Mr. Herbert B. Knight
President (7/22/ 2010 - Current)	Dr. Stephanie Pace Marshall
Vice President of Fund Board	Ms. Pamela Blackwell
Vice President of Finance	Mr. John Hoesley
Vice President of Governance	Mr. Fidel Marquez, Jr.
Treasurer	Mr. John Hoesley
Secretary	Ms. Suzyn M. Price

Directors

Ms. Maureen E. Sullivan	Dr. Stephanie Pace Marshall
Mr. Vasu Kulkarni	Mr. Michael Sloan
Mr. Jarvis Yeh	Ms. Chelsy A. Hopper
Mr. Martin J. DiMarzio	Mr. Fidel Marquez, Jr.
Mr. Herbert B. Knight	Ms. Jean K. Holley
Ms. Vanessa C. Gage	Ms. Pamela Blackwell
Mr. John Hoesley	Mr. Gregory K. Jones
Mr. G. Thomas Castino (to 6/14/2010)	

Agency Offices are located at:

1500 W. Sullivan Road Suite 200
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, 2010 and 2009

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the IMSA Fund for Advancement of Education as of and for the years ended June 30, 2010 and 2009 was performed by Borschnack, Pelletier & Co.

Based on their audits, the auditors expressed an unqualified opinion on the Fund's basic financial statements as of and for the years ended June 30, 2010 and 2009.

SUMMARY OF FINDINGS

The auditors identified a matter involving the Fund's internal control over financial reporting that they considered to be a material weakness. The material weakness is described in the accompanying Schedule of Findings listed in the table of contents as finding 10-1, Lack of Control over Net Asset Reporting.

EXIT CONFERENCE

The finding and recommendation appearing in this report were discussed with Fund personnel at an exit conference on December 14, 2010. Attending were:

IMSA Fund for Advancement of Education	
Herbert B. Knight	Board President (to 7/22/10)
Stephanie Pace Marshall	Board President (7/22/10 to Current)
John Hoesley	Board Vice President of Finance
Suzyn M. Price	Vice President for Advancement
Thomas Walter	Director of Operations
Jane Overstreet	IMSA Fund Bookkeeper
Office of the Auditor General	
Alison Schertz	Audit Manager
Borschnack, Pelletier & Co.	
Paul Pelletier	Partner
Brian Creek	Manager

The response to the recommendation was provided by Thomas Walter in a communication dated December 14, 2010.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants

200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

And

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

As Special Assistant Auditors for the Auditor General, 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, 2010 and 2009, 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 an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the IMSA Fund for Advancement of Education, as of June 30, 2010 and 2009 and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note K to the financial statements, certain errors resulted in a misstatement of previously reported net assets classifications as of June 30, 2009. An adjustment has been made to the June 30, 2009 net asset classifications to correct the error. See finding 10-1 on pages 26-27. Our report dated December 8, 2009 is not to be relied on because the previously-issued financial statements were materially misstated and the previously-issued auditor's report is replaced by the auditor's report on the restated financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 4, 2011 on our consideration of the IMSA Fund for Advancement of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 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.

Borschnack, Pelletier & Co.

January 4, 2011

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.

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.

CONDENSED STATEMENTS OF NET ASSETS
As of June 30,

	2010	2009*
ASSETS		
Cash and Cash Equivalents	$ 840,984	$ 741,709
Investments	2,683,087	2,720,884
Accounts Receivable	62,803	70,079
Contribution Advances	156,708	129,968
Prepaid Expenses	3,470	3,603
Pledges Receivable	52,262	61,751
TOTAL ASSETS	$ 3,799,314	$ 3,727,994
LIABILITIES		
Accounts Payable	$ 32,556	$ 2,846
Deferred Revenue	6,375	9,130
TOTAL LIABILITIES	38,931	11,976
NET ASSETS		
Unrestricted Net Assets	2,446,151	2,184,293
Restricted Net Assets, Expendable	1,269,107	1,500,725
Restricted Net Assets, Nonexpendable	45,125	31,000
TOTAL NET ASSETS	3,760,383	3,716,018
TOTAL LIABILITIES AND NET ASSETS	$ 3,799,314	$ 3,727,994

* As reclassified. See footnote K.

Fiscal year ended June 30, 2010 ended with an increase in net assets of $44,365. This change was influenced by significant gains in the investment portfolio. Overall cash and investments increased slightly, with pledges receivable decreasing and other receivables having a moderate increase. Liabilities recorded in 2010 increased, but were still minor overall.

Pledges Receivable

Pledges receivable are voluntary nonexchange transactions. Revenue was recognized by the Fund in the year when all of the eligibility requirements were met in accordance with Governmental Accounting Standards Board Statement No. 33. Decreases in pledges receivable are attributed to collections exceeding new and remaining pledges that extended beyond the fiscal year end.

Contribution Advances

Contribution Advances represent grants that may be spent over consecutive fiscal years. The Fund and the Academy identify those awards that may be carried over into another fiscal year. In order to account for those particular awards the Fund records them as contribution advances. Grants that have an award date ending on June 30th (the last day of the fiscal year) and remain unspent are returned to the Fund by the Academy. Grant refunds are then placed back into the respective account to be used at a later date.

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.

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 recognized by the Fund, both operating and non-operating, and expenses incurred by the Fund. Revenues primarily consist of contributions to the Fund, interest and dividend income, and support from the Academy. Expenses consist of amounts incurred to support and carry out the mission of the Fund.

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

	2010	2009
OPERATING REVENUES		
Contributions	$ 885,010	$ 907,479
Operating Agreement with Academy	259,441	263,964
Other Operating Revenues	21,361	(3,576)
TOTAL OPERATING REVENUES	1,165,812	1,167,867
OPERATING EXPENSES		
Academy Support	1,029,230	598,390
Management and General	90,984	143,402
Fundraising	72,938	99,292
Operating Agreement with Academy	259,441	263,964
TOTAL OPERATING EXPENSES	1,452,593	1,105,048
NON-OPERATING REVENUES AND EXPENSES	325,021	(546,253)
CONTRIBUTIONS TO PERMANENT ENDOWMENTS	6,125	-
CHANGE IN NET ASSETS	44,365	(483,434)
NET ASSETS – BEGINNING OF YEAR	3,716,018	4,199,452
NET ASSETS – END OF YEAR	$ 3,760,383	$ 3,716,018

Contributions

The total Operating Revenue Contributions received by the Fund decreased 2.5% from fiscal years 2009 to 2010. This decrease was caused by a slight decline in overall giving during fiscal year 2010.

Non-Operating Revenues and Expenses

The Fund's investments sustained significant losses during the economic recession. The Fund recorded realized gains of $19,266 and unrealized gains on investments of $230,423 during fiscal year 2010. Interest and dividend income decreased 17.40% from fiscal year 2009 to fiscal year 2010.

Expenses

Academy Support

The Fund recognized $1,029,230 and $598,390 in fiscal years 2010 and 2009, respectively, in direct support to the Academy. The Fund made an effort to maximize giving as the Academy faced declines in funding from other sources.

Academy Support is program services for those activities that the reporting organization was created to conduct and which, along with any activities commenced subsequently, form the basis of the organization's current exemption from tax. They may be self-funded or funded out of contributions, accumulated income, investment income, or any other source. Fundraising expenses are not reported as program-related expenses even though one of the functions of the organization is to solicit contributions for other organizations.

Fundraising

Fundraising expenses are total expenses incurred in soliciting contributions, gifts, grants, etc. Reported as fundraising expenses are all expenses, incurred in:

A. Publicizing and conducting fund raising campaigns
B. Soliciting bequests and grants
C. Preparing and distributing fundraising manuals
D. Conducting special events to generate contributions

The fiscal year 2010 Fundraising expenses declined 27% compared to fiscal year 2009.

Management and General

Management and general expenses and fundraising expenses combined, decreased from $242,694 in fiscal year 2009 to $163,922 in fiscal year 2010. This is the result of cost-cutting measures, reduced consulting fees, and reduced fundraising expenses as no large special events were held in 2010.

Management and General expenses include the salaries and expense allocations of staff and expenses incurred directly by the Fund's operations except those provided by the Academy pursuant to the operating agreement. These include meetings of the Board of Directors; committee and staff meetings (unless held in connection with specific program services or fundraising activities); general legal services, general liability insurance, office management, auditing, personnel, and preparation, publication, and distribution of an annual report; and investment expenses.

Change in Net Assets

Net Assets increased by $44,365 over the past fiscal year. The increase can be attributed to improved budgetary management and increases in investment holdings. Total Operating Revenue of $1,165,812 and Total Operating Expenses of $1,452,593 indicate that the Fund would have netted a loss of $286,781 prior to the Net Non-Operating Revenues and Expenses of $325,021. This loss can be attributed to the elevated level of support provided to the Academy during 2010. This elevated support was provided through the existing fund balances of Restricted Funds.

Statement of Cash Flows

The Fund uses the Statement of Cash Flows to identify cash provided from operations, investing and financing activities. The Fund had a significant increase in cash equivalents during fiscal year 2010. This primarily resulted from an increase of investment positions that are reported as cash equivalents. Such positions increased from $329,735 at June 30, 2009 to $666,067 at June 30, 2010. Operating Activities did incur a $269,668 cash outflow, largely due to a $356,885 increase in Cash Paid to Grantee, Suppliers and Employees relating to the elevated level of Academy support in 2010. The support came from existing fund balances in Restricted Funds.

CONDENSED STATEMENTS OF CASH FLOWS
For the Years Ended June 30,

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	$ 919,521	$ 927,996
Cash Paid to Grantee, Suppliers and Employees	(1,189,189)	(832,304)
	(269,668)	95,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	75,332	91,199
Cash Payment for the Purchase of Investments	(1,346,962)	(2,224,632)
Cash Proceeds from Sale of Investments	1,634,448	2,139,008
	362,818	5,575
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received for Permanent Endowments	6,125	-
	6,125	-
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	99,275	101,267
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	741,709	640,442
END OF YEAR	$ 840,984	$ 741,709

Economic Outlook

The Fund invests in various investment securities. During the current fiscal year, the overall economy and financial markets began to stabilize, and many of the Fund's investment holdings recovered from losses sustained in the prior two fiscal periods. However, there was still substantial doubt about the future economic outlook at year-end, and investments securities were exposed to various risks such as interest rate, market and credit risks.

The Fund took steps to maintain a higher cash equivalents balance because of the downturn in investments. While market environment remains uncertain the Fund believes a prudent investment strategy will continue to show improved results in the coming fiscal year.

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

STATEMENTS OF NET ASSETS

As of June 30, 2010 and 2009

	2010	2009
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 840,984	$ 741,709
Investments	2,637,962	2,689,884
Accounts Receivable	62,803	70,079
Contribution Advances	156,708	129,968
Prepaid Expenses	3,470	3,603
Pledges Receivable	52,262	61,751
Total Current Assets	3,754,189	3,696,994
Non-Current Assets		
Endowment Investments	45,125	31,000
Total Non-Current Assets	45,125	31,000
TOTAL ASSETS	$ 3,799,314	$ 3,727,994
LIABILITIES		
Accounts Payable	$ 32,556	$ 2,846
Deferred Revenue	6,375	9,130
TOTAL LIABILITIES	38,931	11,976
NET ASSETS		
Unrestricted Net Assets	2,446,151	2,184,293
Restricted Net Assets, Expendable	1,269,107	1,500,725
Restricted Net Assets, Nonexpendable	45,125	31,000
TOTAL NET ASSETS	3,760,383	3,716,018
TOTAL LIABILITIES AND NET ASSETS	$ 3,799,314	$ 3,727,994

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

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

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

For the Years Ended June 30, 2010 and 2009

	2010	2009
Operating Revenues		
Contributions	$ 885,010	$ 901,018
Operating Agreement with Academy	259,441	263,964
Program Fees	19,470	3,495
In-Kind Contributions of Goods and Equipment	860	6,461
Special Events (Net)	680	(7,071)
Other Operating Revenues	351	-
Total Revenues	1,165,812	1,167,867
Operating Expenses		
Academy Support	1,029,230	598,390
Management and General	90,984	143,402
Fundraising	72,938	99,292
Operating Agreement with Academy	259,441	263,964
Total Expenses	1,452,593	1,105,048
Operating Income (Loss)	(286,781)	62,819
Non-Operating Revenues and Expenses		
Interest and Dividend Income	75,332	91,199
Net Gains (Losses) on Investments	249,689	(637,452)
Net Non-Operating Revenue (Expenses)	325,021	(546,253)
Income (Loss) Before Other Revenues	38,240	(483,434)
Contributions to Permanent Endowments	6,125	-
Total Other Revenues	6,125	-
CHANGE IN NET ASSETS	44,365	(483,434)
NET ASSETS - BEGINNING OF YEAR	3,716,018	4,199,452
NET ASSETS - END OF YEAR	$ 3,760,383	$ 3,716,018

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

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	$ 919,521	$ 927,996
Cash Paid to Grantee, Suppliers and Employees	(1,189,189)	(832,304)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(269,668)	95,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	75,332	91,199
Cash Payment for the Purchase of Investments	(1,346,962)	(2,224,632)
Cash Proceeds from Sale of Investments	1,634,448	2,139,008
NET CASH PROVIDED BY INVESTING ACTIVITIES	362,818	5,575
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received for Permanent Endowments	6,125	-
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	6,125	-
INCREASE IN CASH AND CASH EQUIVALENTS	99,275	101,267
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	741,709	640,442
END OF YEAR	$ 840,984	$ 741,709
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES		
Operating (Loss) Income	$ (286,781)	$ 62,819
Adjustments to Reconcile Operating (Loss) Income to Net Cash (Used In) Provided by Operating Activities:		
Changes in Certain Assets and Liabilities:		
Accounts Receivable	7,276	21,424
Contribution Advances	(26,740)	(83,314)
Prepaid Expenses	133	1,820
Pledges Receivable	9,489	124,367
Accounts Payable	29,710	(3,940)
Due to IMSA	-	(36,614)
Deferred Revenue	(2,755)	9,130
Total Adjustments	17,113	32,873
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ (269,668)	$ 95,692

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

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, corporations, and foundations 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 financial reporting entity. The financial balances and activities included in these basic financial statements are, therefore, also included in the State's comprehensive annual financial report.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Financial Reporting Entity – (Continued)

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 are recognized 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 financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Private–sector standards issued after that date are not followed.

4. Cash and Cash Equivalents

Cash and cash equivalents include debt securities with a maturity of 90 days or less at the time of acquisition, cash on hand, cash in banks, and money market funds held in an investment account in the name of IMSA Fund for Advancement of Education.

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 deposit and investment risks: credit risk, interest rate risk, and foreign currency risk. Accordingly, these disclosures have been made in Note C – Deposits and Investments.

6. Accounts Receivable

Accounts receivable primarily consist of grant refunds due from the Illinois Mathematics and Science Academy. All accounts receivable are considered to be fully collectible and therefore an allowance for doubtful accounts is not necessary.

7. Classification of Revenues

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

Operating revenues generally 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.

Non-operating revenues include investment income and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

8. 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 Fund’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”.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

9. 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.

NOTE C – DEPOSITS AND INVESTMENTS

IMSA Fund independently manages its cash and cash equivalents maintained outside the State Treasury. A reconciliation of deposits and investments presented in this disclosure and the financial statement captions shown on the Statement of Net Assets is as follows:

	2010	2009
Carrying amount of Deposits	$ 530,576	$ 658,085
Carrying amount of Investments	2,327,228	2,474,573
Money market funds	666,067	329,735
Petty cash	200	200
Total	$ 3,524,071	$ 3,462,593

	2010	2009
Cash and Cash Equivalents	$ 840,984	$ 741,709
Investments	2,637,962	2,689,884
Endowment Investments	45,125	31,000
Total	$ 3,524,071	$ 3,462,593

1. Deposits

Deposits with financial institutions had carrying amounts of $530,576 and $658,085 and bank balances of $534,374 and $640,467 at June 30, 2010 and 2009, respectively. These amounts represent cash in banks and certificates of deposit.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned. Deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC) or pledged collateral. Certificates of deposit were held in the Fund’s investment brokerage account.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

2. 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.

Investments at June 30, 2010 consisted of the following managed funds:

		Investment Maturities (in Years)			
Investment Types	**Fair Value**	**No Maturity Date**	**Less Than 1**	**1-5**	**6-10**
Corporate Debt Securities	$ 79,802	$ -	$ -	$ 79,802	$ -
Corporate Equity	1,540,083	1,540,083	-	-	-
U.S. Treasuries	228,116	-	72,945	155,171	-
U.S. Agency Obligations	404,970	-	-	394,825	10,145
FNMA Mortgage Backed Securities	31,915	-	-	21,263	10,652
Municipal Debt Securities	42,342	-	-	42,342	-
Total	$ 2,327,228	$ 1,540,083	$ 72,945	$ 693,403	$ 20,797

Investments at June 30, 2009 consisted of the following managed funds:

		Investment Maturities (in Years)			
Investment Types	**Fair Value**	**No Maturity Date**	**Less Than 1**	**1-5**	**6-10**
Corporate Debt Securities	$ 204,751	$ -	$ 50,810	$ 153,941	$ -
Corporate Equity	1,558,765	1,558,765	-	-	-
U.S. Treasuries	230,554	-	25,584	204,970	-
U.S. Agency Obligations	449,435	-	25,237	390,916	33,282
Municipal Debt Securities	31,068	-	-	31,068	-
Total	$ 2,474,573	$ 1,558,765	$ 101,631	$ 780,895	$ 33,282

In addition to the above investments, the Fund maintained money market funds (reported as cash equivalents on the statements of net assets) in investment accounts that had a carrying amount and fair market value of $666,067 and $329,735 at June 30, 2010 and 2009, respectively. These funds have maturities of less than 90 days, and had a weighted average years to maturity of approximately 0.164 and 0.197 at June 30, 2010 and 2009, respectively. No rating information is available for these funds.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

The Fund's investments at June 30, 2010 and 2009 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.

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 Federal National Mortgage Association (FNMA) Mortgage Backed Securities. The principal on these multi-family residential mortgage pools is guaranteed by FNMA. These securities are not rated.

The 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, 2010, the Fund's investments in debt securities were rated A to AAA. As of June 30, 2009, the Fund's investments in debt securities were rated A to AA+.

Standard & Poor's Rating	2010 Fair Market Value	Standard & Poor's Rating	2009 Fair Market Value
AAA	$ 10,943	AA+	$ 31,068
AA+	31,399	A+	51,201
A	79,802	A	153,550
Total	$ 122,144	Total	$ 235,819

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.

Foreign currency risk: The Fund was not exposed to foreign currency risk at June 30, 2010. The Fund's exposure to foreign currency risk (valued in U.S. dollars) is as follows as of June 30, 2009:

Investment	Currency	Rating	Maturity	Fair Value
Quebec Province Canada Notes	Canadian Dollar	A+	7/17/09	$ 50,055
Total				$ 50,055

The Fund's investment policy includes limitation on investment types that reduces the Fund's exposure to foreign currency risk.

NOTE C – DEPOSITS AND INVESTMENTS (Continued)

2. Investments (Continued)

The Fund experienced the following types of gains/losses on its investments during fiscal years:

	2010	2009
Net realized gains (losses) on disposition of investments	$ 19,266	$ (448,088)
Net unrealized gains (losses)	230,423	(189,364)
Total net gains (losses) on investments	$ 249,689	$ (637,452)

NOTE D – PLEDGES RECEIVABLE

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, 2010 and 2009, pledges receivable were $52,262 and $61,751, respectively. At June 30, 2010 and 2009, all pledges receivable were classified as short-term. Pledges are believed to be fully collectible as of June 30, 2010 and 2009, respectively.

NOTE E - SPECIAL EVENTS

Special events are stated net of costs of direct benefits to donors. For the year ended June 30, 2010, revenue totaled $680 and there was no expense associated with special events. For the year ended June 30, 2009, the results of the events were as follows:

	Other Events	*Silent Auction*
Special Event Revenue	$ 48,440	$ 7,721
Less: Costs of Direct Benefits to Donors	(45,125)	(18,107)
Special Events Revenue (Net)	3,315	(10,386)
Total		$ (7,071)

NOTE F – 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 costs the Academy incurs on behalf of IMSA Fund, no reimbursement shall occur. If in any fiscal year those costs are greater than the program support provided to the Academy, IMSA Fund will reimburse the Academy for the excess of the costs over the program support provided. For fiscal year 2010 and 2009, total program support provided to the Academy by IMSA Fund was $1,029,230 and $598,390, respectively. The total costs incurred by the Academy for the IMSA Fund were approximately $259,441 and $263,964, respectively.

At June 30, 2010 and 2009, accounts receivable due from the Academy were $62,803 and $70,079, respectively.

At June 30, 2010 and 2009, contribution advances of $156,708 and $129,968, respectively had been paid to the Academy but were deferred to the following year.

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 $56,429 and $42,021, during the years ended June 30, 2010 and 2009, respectively.

NOTE G – 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 IMSA 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 H – 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, 2010 and 2009.

NOTE I – ENDOWMENTS

The Fund's Board established a quasi-endowment fund during the year ended June 30, 2008. This endowment's principal objectives are the promotion and development of innovation and excellence in achieving the Academy's legislative mandate and strategic mission and objectives, including non-recurring purposes of the Academy not regularly funded by the State of Illinois. The balance of this fund as of June 30, 2010 and 2009 respectively was $887,110 and $804,314. The principal of the endowment will not be expended, and is reported on the Statements of Net Assets as "Unrestricted Net Assets".

Two additional endowment funds were established pursuant to donors' gifts during the year ended June 30, 2007. These endowments require the principal to remain intact and are reported on the Statements of Net Assets as "Restricted Net Assets, Nonexpendable".

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 funds. The only authorized disbursements for the years ended June 30, 2010 and 2009 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. Net appreciation of donor restricted endowments was $0 as of June 30, 2010 and 2009.

All of the endowment funds are pooled for investment purposes. Each fund shares proportionally in any recognized or unrecognized capital gains and losses and in any other net earnings generated by those investments. The IMSA Fund intends to retain accumulated earnings generated by the quasi-endowment fund until the principal and accumulated earnings reach $5,000,000 at fiscal year-end. Once the quasi-endowment fund attains this goal, an annual spending draw will be calculated for the endowment for the following fiscal year.

NOTE J – 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, 2010 and 2009 reflects the estimated value of non-cash compensation of $259,441 and $263,964, respectively provided by the Academy for personnel, office space, furnishings, equipment, utilities, and maintenance.

NOTE K – PRIOR PERIOD RECLASSIFICATION

The Fund has reclassified its June 30, 2009 net assets to correct a reporting error in 2009. This reclassification decreased restricted net assets, expendable and increased unrestricted net assets by $103,964.

Borschnack Pelletier & Co.
Certified Public Accountants & Consultants

200 East Court Street • Suite 608 • Kankakee, IL 60901
815.933.1771 • fax: 815.933.1163

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

Honorable William G. Holland
Auditor General
State of Illinois

And

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

As Special Assistant Auditors for the Auditor General, 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 years ended June 30, 2010 and June 30, 2009 which comprise the IMSA Fund for Advancement of Education's basic financial statements, and have issued our report thereon dated January 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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, but 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control over financial reporting that we consider to be a material weakness.

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 deficiency described in finding 10-1 in the accompanying schedule of findings to be 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.

We also noted a certain matter that we reported to management of the IMSA Fund for Advancement of Education in a separate letter dated January 4, 2011.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, management and the Board of Directors of IMSA Fund for Advancement of Education and is not intended to be and should not be used by anyone other than these specified parties.

Borschnack, Pelletier & Co.

January 4, 2011

10-1 Finding: Lack of Control over Net Asset Reporting

The IMSA Fund for Advancement of Education (Fund) did not have appropriate controls to verify the net assets classifications reported in the financial statements agreed to the Fund's accounting records.

The Fund has used a consultant each of the last several years to assist management with preparing GAAP basis financial statements. Prior to fiscal year 2009, the Fund maintained its formal accounting records on the cash basis and recorded accrual adjustments outside of its formal accounting records. In fiscal year 2009, the Fund switched accounting software. During the preparation of the 2009 financial statements, certain interfund entries to eliminate those accrual adjustments were overlooked by the consultant because the amounts zeroed out across all funds. Fund management did not verify that the net asset classifications on the financial statements prepared by the consultant agreed with the Fund's detailed accounting records. The initial 2010 financial statements prepared by the consultant and provided to the auditors continued this error. As a result, the June 30, 2009 "restricted net assets, expendable" have been decreased and the "unrestricted net assets" have been increased by $103,964 to correct this error.

The Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires the Fund establish and maintain a system of internal fiscal and administrative controls which would include the accurate preparation of financial reports. Management is required to take responsibility for its financial statements. Proper internal controls would require management to review the work of consultants it hires to assist with the preparation of those financial statements.

Fund management stated that a new accounting system was implemented in fiscal year 2009. Management and the consultant are still learning and adapting to reporting from this new system.

Failure to properly agree the accounting records to the financial statements can result in a material misstatement of the financial statements. (Finding Code No. 10-1)

<u>Recommendation</u>

We recommend Fund management thoroughly review the work of its consultants to ensure the financial statements are properly presented.

<u>Fund Response</u>

The General Ledger of the IMSA Fund is and was always in balance with respect to Net Asset Balances. Due to the small accounting staff working for the IMSA Fund, it was deemed necessary for the Fund to hire outside assistance to help in preparing the yearend statements and tax forms. Because of this process, some work papers were completed on spreadsheets outside of the ledger system. Transfers between Net Asset classes that were booked on the ledger were not evident during this process and were overlooked. In total, the Net Assets of the Fund were reported correctly on the year end statements.

10-1 Finding: Lack of Control over Net Asset Reporting (continued)

Fund Response (continued)

Going forward, with set up of a new ledger system behind us, the Fund's accounting staff is ready to decrease its dependence on outside consulting for yearend financial statements and next year, plans to produce the statements directly from the ledger thus eliminating this risk in the future. Also the staff will be more diligent in verifying correct Net Asset classes as well as total Net Assets on the financial statements.

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
PRIOR FINDINGS NOT REPEATED
For the Year Ended June 30, 2010

There were no prior findings reported.