

**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, 2012 AND 2011**

**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, 2012 and 2011

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IMSA FUND FOR ADVANCEMENT OF EDUCATION  
(A Component Unit of the State of Illinois)  
For the Years Ended June 30, 2012 and 2011

**AGENCY OFFICIALS**

Vice President for Advancement - Illinois Mathematics and Science Academy (to 6/30/2011)	Ms. Suzyn M. Price
Vice President of Strategy and Advancement - Illinois Mathematics and Science Academy (7/1/2011 to Current)	Ms. Cathy Veal
Executive Director of Development – Illinois Mathematics and Science Academy (7/1/2011 to 7/29/2011) (11/3/2011 to Current)	Ms. Jennifer Spuehler Mr. Paul F. Milano
Director of Operations for Advancement (to 7/31/2012)	Mr. Thomas Walter

**BOARD OF DIRECTORS**

Officers

Chairman (7/1/2010 to 12/31/2010) (1/1/2011 to 6/5/2012)	Mr. Gregory K. Jones Dr. Stephanie Pace Marshall
President (to 7/22/2010) (7/23/2010 to 12/31/2010) (1/1/2011 to Current)	Mr. Herbert B. Knight Dr. Stephanie Pace Marshall Mr. John Hoesley
Vice President of Fund Board	Ms. Pamela Blackwell
Chair of Finance (to 12/31/2010) (1/1/2011 to 11/30/2011) (11/1/2011 to Current)	Mr. John Hoesley Mr. Herbert B. Knight Mr. Jordan Koss
Chair of Governance (to 2/3/2012) (3/19/2012 to Current)	Mr. Fidel Marquez, Jr. Ms. Pamela Blackwell
Treasurer (7/1/2010 to 6/8/2011) (6/9/2011 to 11/30/2011) (12/1/2011 to Current)	Mr. John Hoesley Mr. Herbert B. Knight Mr. Jordan Koss
Secretary (to 6/30/2011) (7/1/2011 to 7/31/2012)	Ms. Suzyn M. Price Mr. Thomas Walter

Directors

Ms. Maureen E. Sullivan	Dr. Stephanie Pace Marshall
Mr. Vasu Kulkarni	Mr. Michael Sloan (to 2/24/2012)
Mr. Jarvis Yeh (to 6/30/2011)	Ms. Chelsy A. Hopper (to 6/5/2012)
Mr. Martin J. DiMarzio	Mr. Fidel Marquez, Jr. (to 2/6/2012)
Mr. Herbert B. Knight (to 11/30/2011)	Ms. Jean K. Holley (to 6/14/2011)
Ms. Vanessa C. Gage	Ms. Pamela Blackwell
Mr. John Hoesley	Mr. Gregory K. Jones (to 6/5/2012)
Mr. Jordan Koss	Mr. Moises Goldman (2/2/2012 to Current)
Mr. Michael Suh (10/3/2011 to Current)	Mr. Dan Mueth (2/2/2012 to Current)
Mr. Kapil Chaudhary (2/2/2012 to Current)	Dr. Ross Hemphill (3/19/12 to Current)

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, 2012 and 2011

**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, 2012 and 2011 was performed by Borschnack, Pelletier & Co.

Based on their audits, the auditors expressed unqualified opinions on the Fund's basic financial statements as of and for the years ended June 30, 2012 and 2011.

**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 12-1, Financial Statement Errors.

**EXIT CONFERENCE**

The finding and recommendation appearing in this report was discussed with Fund personnel at an exit conference on December 18, 2012. Attending were:

	<b><u>IMSA Fund for Advancement of Education</u></b>
Paul F. Milano	Executive Director of Development
Susan Albrecht	IMSA Fund Finance Manager
	<b><u>Office of the Auditor General</u></b>
Lana Miari	Audit Manager
	<b><u>Borschnack, Pelletier &amp; Co.</u></b>
Paul Pelletier	Partner

The response to the recommendation was provided by Susan Albrecht in a communication dated December 18, 2012.



Certified Public Accountants & Consultants

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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, 2012 and 2011, which comprise the IMSA Fund for Advancement of Education's basic financial statements 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, 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, 2012 and 2011 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2012 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.

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Borschach, Pelletier & Co.*

December 18, 2012

STATE OF ILLINOIS  
 IMSA FUND FOR ADVANCEMENT OF EDUCATION  
 (A Component Unit of the State of Illinois)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
 For the Years Ended June 30, 2012 and 2011

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**  
 For the Years Ended June 30,

	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 966,066	\$ 919,169
Investments	3,413,259	3,293,581
Accounts Receivable	105,562	81,065
Contribution Advances	246,795	311,810
Prepaid Expenses	16,324	4,863
Pledges Receivable, Net	960,690	1,101,095
<b>TOTAL ASSETS</b>	<b>\$ 5,708,696</b>	<b>\$ 5,711,583</b>
<b>LIABILITIES</b>		
Accounts Payable	\$ 652	\$ 16,438
Deferred Revenue	24,935	3,644
<b>TOTAL LIABILITIES</b>	<b>25,587</b>	<b>20,082</b>
<b>NET ASSETS</b>		
Unrestricted Net Assets	4,146,341	3,980,182
Restricted Net Assets, Expendable	1,414,363	1,639,194
Restricted Net Assets, Nonexpendable	122,405	72,125
<b>TOTAL NET ASSETS</b>	<b>5,683,109</b>	<b>5,691,501</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,708,696</b>	<b>\$ 5,711,583</b>

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Years Ended June 30, 2012 and 2011

Fiscal year ended June 30, 2012 ended with a decrease in net assets of \$8,392. This change was influenced by significant pledges receivable in FY11, but not repeated in FY12. Overall cash and investments increased slightly, while the change in liabilities recorded in 2012 remained minor overall.

Pledges Receivable

Pledges receivable are voluntary nonexchange transactions. Revenue is recognized by the Fund in the year when all of the eligibility requirements are met in accordance with Governmental Accounting Standards Board Statement No. 33.

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.

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**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,

	<b>2012</b>	<b>2011</b>
<b>OPERATING REVENUES</b>		
Contributions	\$ 988,111	\$ 2,077,145
Operating Agreement with Academy	254,844	269,600
Other Operating Revenues	88,543	85,495
<b>TOTAL OPERATING REVENUES</b>	1,331,498	2,432,240
<b>OPERATING EXPENSES</b>		
Academy Support	1,057,255	836,585
Management and General	80,343	99,910
Fundraising	42,174	54,412
Operating Agreement with Academy	254,844	269,600
<b>TOTAL OPERATING EXPENSES</b>	1,434,616	1,260,507
<b>OPERATING INCOME (LOSS)</b>	(103,118)	1,171,733
<b>NON-OPERATING REVENUES AND EXPENSES</b>	44,446	732,385
<b>CONTRIBUTIONS TO PERMANENT ENDOWMENTS</b>	50,280	27,000
<b>CHANGE IN NET ASSETS</b>	(8,392)	1,931,118
<b>NET ASSETS – BEGINNING OF YEAR</b>	5,691,501	3,760,383
<b>NET ASSETS – END OF YEAR</b>	\$ 5,683,109	\$ 5,691,501

Operating Revenue

The total Operating Revenue of the Fund decreased 45% from fiscal years 2011 to 2012. This was primarily the result of a \$1 million pledge received in 2011 that was not repeated in 2012.

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The Fund's investment income decreased during the past fiscal year. The Fund recorded interest and dividends income of \$64,755 and net losses on investments of \$20,309 during fiscal year 2012. 2011 included interest and dividend income of \$69,942 and net gains on investments of \$662,443.

Operating Expenses

Academy Support

The Fund recognized \$1,057,255 and \$836,585 in fiscal years 2012 and 2011, 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 include expenses incurred in soliciting contributions, gifts, grants, etc. The following activities are reported as fundraising expenses:

- 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 2012 Fundraising expenses decreased 22% compared to fiscal year 2011.

Management and General

Management and general expenses decreased from \$99,910 in fiscal year 2011 to \$80,343 in fiscal year 2012.

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.

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Change in Net Assets

Net Assets decreased by \$8,392 over the past fiscal year. During FY12 improved budgetary management allowed the IMSA Fund to operate at a minimal loss versus the budgeted use of \$150,000 of investments. The fund continues to use existing fund balances to support Academy projects.

**Statement of Cash Flows**

The Fund uses the Statement of Cash Flows to identify cash provided by or used in operating activities, investing and financing activities. The Fund had a \$46,897 increase in cash equivalents during fiscal year 2012. This primarily resulted from an increase of investment positions that are reported as cash equivalents for financial reporting.

**CONDENSED STATEMENTS OF CASH FLOWS**

For the Years Ended June 30,

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Supporters and Grantors	\$ 1,268,091	\$ 1,057,554
Cash Paid to Grantee, Suppliers and Employees	(1,196,242)	(1,128,260)
	71,849	(70,706)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received	64,755	69,942
Cash Payment for the Purchase of Investments	(2,267,722)	(1,237,406)
Cash Proceeds from Sale of Investments	2,127,735	1,289,355
	(75,232)	121,891
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash Received for Permanent Endowments	50,280	27,000
	50,280	27,000
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	46,897	78,185
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	919,169	840,984
<b>END OF YEAR</b>	\$ 966,066	\$ 919,169

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**Economic Outlook**

The Fund continues to invest in various investment securities. During the current fiscal year, the overall economy and financial markets remained stable, whereas there were substantial gains in the prior year. 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 maintained a higher cash equivalents balance because of its projection to support the academy. While market environment remains uncertain the Fund believes its prudent investment strategy and policies will result in improved results in future fiscal years.

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**STATEMENTS OF NET ASSETS**  
 As of June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 966,066	\$ 919,169
Investments	3,290,854	3,221,456
Accounts Receivable	105,562	81,065
Contribution Advances	246,795	311,810
Prepaid Expenses	16,324	4,863
Pledges Receivable, Net	151,855	198,865
Total Current Assets	<u>4,777,456</u>	<u>4,737,228</u>
<b>Non-Current Assets</b>		
Pledges Receivable, Net	808,835	902,230
Endowment Investments	122,405	72,125
Total Non-Current Assets	<u>931,240</u>	<u>974,355</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,708,696</u>	<u>\$ 5,711,583</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 652	\$ 16,438
Deferred Revenue	24,935	3,644
<b>TOTAL LIABILITIES</b>	<u>25,587</u>	<u>20,082</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	4,146,341	3,980,182
Restricted Net Assets, Expendable	1,414,363	1,639,194
Restricted Net Assets, Nonexpendable	122,405	72,125
<b>TOTAL NET ASSETS</b>	<u>5,683,109</u>	<u>5,691,501</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 5,708,696</u>	<u>\$ 5,711,583</u>

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

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**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
 For the Years Ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<b>Operating Revenues</b>		
Contributions	\$ 988,111	\$ 2,077,145
Operating Agreement with Academy	254,844	269,600
Program Fees	12,038	16,099
In-Kind Contributions of Goods and Equipment	24,315	72,175
Special Events (Net)	51,190	(4,764)
Other Operating Revenues	1,000	1,985
Total Revenues	<u>1,331,498</u>	<u>2,432,240</u>
<b>Operating Expenses</b>		
Academy Support	1,057,255	836,585
Management and General	80,343	99,910
Fundraising	42,174	54,412
Operating Agreement with Academy	254,844	269,600
Total Expenses	<u>1,434,616</u>	<u>1,260,507</u>
Operating Income (Loss)	<u>(103,118)</u>	<u>1,171,733</u>
<b>Non-Operating Revenues and Expenses</b>		
Interest and Dividend Income	64,755	69,942
Net Gains (Losses) on Investments	(20,309)	662,443
Net Non-Operating Revenue (Expenses)	<u>44,446</u>	<u>732,385</u>
Income (Loss) Before Other Revenues	<u>(58,672)</u>	<u>1,904,118</u>
Contributions to Permanent Endowments	50,280	27,000
Total Other Revenues	<u>50,280</u>	<u>27,000</u>
<b>CHANGE IN NET ASSETS</b>	(8,392)	1,931,118
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>5,691,501</u>	<u>3,760,383</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 5,683,109</u>	<u>\$ 5,691,501</u>

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

STATE OF ILLINOIS  
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**STATEMENTS OF CASH FLOWS**  
 For the Years Ended June 30, 2012 and 2011

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Supporters and Grantors	\$ 1,268,091	\$ 1,057,554
Cash Paid to Grantee, Suppliers and Employees	(1,196,242)	(1,128,260)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	71,849	(70,706)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received	64,755	69,942
Cash Payment for the Purchase of Investments	(2,267,722)	(1,237,406)
Cash Proceeds from Sale of Investments	2,127,735	1,289,355
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(75,232)	121,891
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash Received for Permanent Endowments	50,280	27,000
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	50,280	27,000
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	46,897	78,185
<b>CASH AND CASH EQUIVALENTS,</b>		
<b>BEGINNING OF YEAR</b>	919,169	840,984
<b>END OF YEAR</b>	\$ 966,066	\$ 919,169
<b>RECONCILIATION OF OPERATING (LOSS) INCOME TO</b>		
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>		
Operating (Loss) Income	\$ (103,118)	\$ 1,171,733
Adjustments to Reconcile Operating (Loss) Income to		
Net Cash (Used In) Provided by Operating Activities:		
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(24,497)	(18,262)
Contribution Advances	65,015	(155,102)
Prepaid Expenses	(11,461)	(1,393)
Pledges Receivable	140,405	(1,048,833)
Accounts Payable	(15,786)	(16,118)
Deferred Revenue	21,291	(2,731)
Total Adjustments	174,967	(1,242,439)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 71,849	\$ (70,706)

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

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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**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.

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**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.

**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.

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**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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".

**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.

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**NOTE C – DEPOSITS AND INVESTMENTS**

The Fund independently manages its cash and cash equivalents which are 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:

	<u>2012</u>	<u>2011</u>
Carrying amount of Deposits	\$ 573,398	\$ 456,401
Carrying amount of Investments	3,009,655	3,009,319
Money market funds	796,072	746,830
Petty cash	200	200
Total	<u>\$ 4,379,325</u>	<u>\$ 4,212,750</u>
	<u>2012</u>	<u>2011</u>
Cash and Cash Equivalents	\$ 966,066	\$ 919,169
Investments	3,290,854	3,221,456
Endowment Investments	122,405	72,125
Total	<u>\$ 4,379,325</u>	<u>\$ 4,212,750</u>

**1. Deposits**

Deposits with financial institutions had carrying amounts of \$573,398 and \$456,401 and bank balances of \$561,314 and \$457,093 at June 30, 2012 and 2011, 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.

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**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, 2012 consisted of the following managed funds:

<b><u>Investment Types</u></b>	<b><u>Fair Value</u></b>	<b><u>Investment Maturities (in Years)</u></b>				
		<b>No Maturity Date</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>10 +</b>
Corporate Debt Securities	\$ 77,822	\$ -	\$ 35,704	\$ 42,118	\$ -	\$ -
Corporate Equity	2,305,657	2,305,657	-	-	-	-
U.S. Treasuries	46,015	-	-	46,015	-	-
U.S. Agency Obligations	441,732	-	-	209,674	232,058	-
FNMA Mortgage Backed Securities	10,186	-	10,186	-	-	-
Municipal Debt Securities	<u>128,243</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>128,243</u>
Total	<u>\$3,009,655</u>	<u>\$2,305,657</u>	<u>\$ 45,890</u>	<u>\$ 297,807</u>	<u>\$ 232,058</u>	<u>\$ 128,243</u>

Investments at June 30, 2011 consisted of the following managed funds:

<b><u>Investment Types</u></b>	<b><u>Fair Value</u></b>	<b><u>Investment Maturities (in Years)</u></b>				
		<b>No Maturity Date</b>	<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>10 +</b>
Corporate Debt Securities	\$ 79,971	\$ -	\$ -	\$ 79,971	\$ -	\$ -
Corporate Equity	2,133,148	2,133,148	-	-	-	-
U.S. Treasuries	198,476	-	47,076	151,400	-	-
U.S. Agency Obligations	434,090	-	324,203	89,912	-	19,975
FNMA Mortgage Backed Securities	10,436	-	-	10,436	-	-
Municipal Debt Securities	<u>153,198</u>	<u>-</u>	<u>30,821</u>	<u>-</u>	<u>-</u>	<u>122,377</u>
Total	<u>\$3,009,319</u>	<u>\$2,133,148</u>	<u>\$ 402,100</u>	<u>\$ 331,719</u>	<u>\$ -</u>	<u>\$ 142,352</u>

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**NOTE C – DEPOSITS AND INVESTMENTS (Continued)**

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 \$796,072 and \$746,830 at June 30, 2012 and 2011, respectively. These funds have maturities of less than 90 days, and had a weighted average years to maturity of approximately 0.11 and 0.10 at June 30, 2012 and 2011, respectively. No rating information is available for these funds.

The Fund's investments at June 30, 2012 and 2011 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 states that it will avoid direct investment in bonds with a credit rating of less than A by Standard & Poor's. As of June 30, the Fund's investments in debt securities (other than U.S. Treasuries) were rated as follows:

<b><u>Standard &amp; Poor's Rating</u></b>	<b><u>2012 Fair Market Value</u></b>	<b><u>Standard &amp; Poor's Rating</u></b>	<b><u>2011 Fair Market Value</u></b>
AAA	\$ 43,247	AAA	\$ 500,134
AA+	459,508	AA+	30,821
AA	56,864	AA	45,976
A-	77,822	A	79,972
Not rated	<u>20,542</u>	Not rated	<u>20,792</u>
Total	<u>\$ 657,983</u>	Total	<u>\$ 677,695</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.

**Foreign currency risk:** The Fund was not exposed to foreign currency risk at June 30, 2012 or June 30, 2011. The Fund's investment policy includes limitation on investment types that reduces the Fund's exposure to foreign currency risk.

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**NOTE C – DEPOSITS AND INVESTMENTS (Continued)**

**2. Investments (Continued)**

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

	<b><u>2012</u></b>	<b><u>2011</u></b>
Net realized gains (losses) on disposition of investments	\$ 250,451	\$ 218,752
Net unrealized gains (losses)	<u>(270,760)</u>	<u>443,691</u>
Total net gains (losses) on investments	<u>\$ (20,309)</u>	<u>\$ 662,443</u>

**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, 2012 and 2011, pledges receivable were \$960,690 and \$1,101,095, respectively. At June 30, 2012 and 2011, all pledges receivable were classified as either short-term or long term. Long term pledges included discounts of \$36,746 and \$39,000 as of June 30, 2012 and 2011, respectively. The pledges are reported net of an allowance for doubtful accounts of \$5,012 and \$0 as of June 30, 2012 and 2011, respectively.

**NOTE E - SPECIAL EVENTS**

Special events are stated net of costs of direct benefits to donors. For the year ended June 30, 2012, special events netted to \$51,190. For the years ended June 30, 2012 and 2011, the results of the events were as follows:

	<b><u>2012</u></b>	<b><u>2011</u></b>
Special Event Revenue and Sponsorships	\$ 129,743	\$ 32,120
Special Event Direct Expense	<u>(78,553)</u>	<u>(36,884)</u>
Net Total	<u>\$ 51,190</u>	<u>\$ (4,764)</u>

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June 30, 2012 and 2011

**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 years 2012 and 2011, total program support provided to the Academy by IMSA Fund was \$1,057,255 and \$836,585, respectively. The total costs incurred by the Academy for the IMSA Fund were approximately \$254,844 and \$269,600, respectively.

At June 30, 2012 and 2011, accounts receivable due from the Academy were \$105,562 and \$81,065, respectively.

At June 30, 2012 and 2011, contribution advances of \$246,795 and \$311,810, 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 \$54,644 and \$54,360, during the years ended June 30, 2012 and 2011, 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.

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**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2012 and 2011

**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, 2012 and 2011.

**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, 2012 and 2011 respectively was \$2,365,746 and \$2,255,559. The principal of the endowment will not be expended, and is reported on the Statements of Net Assets as "Unrestricted Net Assets".

Two permanent endowment funds were established pursuant to donors' gifts during the year ended June 30, 2007. Two additional permanent endowment funds were established during the fiscal year ended June 30, 2012. 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, 2012 and 2011 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 \$17,028 and \$18,417 as of June 30, 2012 and 2011, respectively.

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.

**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 year ended June 30, 2012 which comprise the IMSA Fund for Advancement of Education's basic financial statements, and have issued our report thereon dated December 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the IMSA Fund for Advancement of Education is responsible for establishing and maintaining effective 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in 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 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 12-1 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*.

The 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 the IMSA Fund for Advancement of Education's response and, accordingly, we express no opinion on the response.

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 the IMSA Fund for Advancement of Education and is not intended to be and should not be used by anyone other than these specified parties.



December 18, 2012

STATE OF ILLINOIS  
IMSA FUND FOR ADVANCEMENT OF EDUCATION  
(A Component Unit of the State of Illinois)  
**CURRENT FINDINGS**  
For the Year Ended June 30, 2012

**12-1 Finding: Financial Statement Errors**

The IMSA Fund for Advancement of Education (Fund) did not initially properly report certain financial statement amounts in its June 30, 2012 financial statements.

During our audit we noted the following financial statement reporting matters that required reclassification revision:

- The Fund incorrectly reported a certificate of deposit in the amount of \$15,268 with original maturity date of greater than three months as a cash equivalent instead of an investment in the Statement of Net Assets. After bringing this matter to their attention, the Fund reclassified this certificate of deposit to investments.
- The Fund initially prepared a non-classified Statement of Net Assets. Governmental Accounting Standards Board Statement No. 34 requires proprietary funds to be presented in a classified format to distinguish between current and long-term assets and liabilities. After bringing this to their attention, the Fund revised the Statement of Net Assets to reflect both current and non-current assets.
- The Fund initially reported \$50,280 of permanent endowments as “unrestricted net assets” instead of “restricted net assets, nonexpendable” on the Statement of Net Assets. After bringing this to the Fund’s attention, the Fund correctly included this amount as “restricted net assets, nonexpendable” on the Statement of Net Assets.
- The Fund initially included contributions to permanent endowments totaling \$50,280 in “Contributions” in the operating revenues section of the Statement of Revenues, Expenses, and Changes in Net Assets instead of as “Contributions to permanent endowments” in the other revenues section of the Statement of Revenues, Expenses, and Changes in Net Assets. After bringing this to their attention, the Fund corrected this reporting error and has reported this amount as “Contributions to permanent endowments.”

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 of 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 (GAAP).

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

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**CURRENT FINDINGS**  
For the Year Ended June 30, 2012

**12-1 Finding: Financial Statement Errors (continued)**

Fund officials stated that this error was the result of inexperience in SAGE (accounting software) reporting. The employee who completed the draft financial statements is a recent hire, and erroneously reported the activity in the permanently restricted funds as unrestricted. The activity was correctly reported in SAGE as endowment, but not captured as such in the Financial Statements. The error related to the certificate of deposit was due to a misunderstanding of the cash equivalents accounting policy.

Failure to prepare accurate financial statements in accordance GAAP may result in financial statements that are materially misstated. (Finding Code Nos. 12-1, 11-1, 10-1)

Recommendation

We recommend Fund management thoroughly review its financial statements and verify amounts in order to ensure the financial statements are properly presented in accordance with accounting principles generally accepted in the United States of America.

Fund Response

The IMSA Fund agrees with the recommendation to thoroughly review its financial statements and verify all information is properly presented, as it is our responsibility.

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**PRIOR FINDINGS NOT REPEATED**  
For the Year Ended June 30, 2012

There were no prior findings in the prior report that were not repeated.