

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2005**

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

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD**

**FINANCIAL AUDIT  
For the Year Ended June 30, 2005**

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## **CAPITAL DEVELOPMENT BOARD**

### **AGENCY OFFICIALS**

Executive Director	1/3/05 - present 7/1/04 - 1/2/05	Janet Grimes Anthony Rossi
Deputy Director of Construction	7/1/04 - present	James Riemer
Deputy Director of Operations	7/1/04 - present	Darryl Harris
Administrator of the Office of Fiscal Management	7/1/04 - present	Gevan Behnke
Legal Counsel	7/1/04 - present	Fred Hahn

Agency offices are located at:

300 William G. Stratton Building  
401 South Spring Street  
Springfield, Illinois 62706

## FINANCIAL STATEMENT REPORT

### SUMMARY

The audit of the accompanying basic financial statements of the Capital Development Board was performed by Clifton Gunderson LLP.

### AUDITOR'S REPORT

Based on their audit, the auditors expressed unqualified opinions on the Agency's basic financial statements.

### SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>
FINDINGS ( <i>GOVERNMENT AUDITING STANDARDS</i> )		
05-1	7	Inadequate Internal Control and Financial Reporting for Uninsured and Uncollateralized Deposits
PRIOR FINDINGS NOT REPEATED ( <i>GOVERNMENT AUDITING STANDARDS</i> )		
05-2	9	Efficiency Initiative Payments

### EXIT CONFERENCE

The *Government Auditing Standards* finding and recommendation appearing in this report was discussed with Capital Development Board personnel. No formal exit conference was deemed necessary. The response to the recommendation was provided by Gevan Behnke on January 3, 2006.

## Independent Auditor's Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois Capital Development Board, as of and for the year ended June 30, 2005, which collectively comprise the State of Illinois Capital Development Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Illinois Capital Development Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the State of Illinois Capital Development Board are intended to present the financial position and changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the State of Illinois Capital Development Board. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, and its changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois Capital Development Board, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2005 on our consideration of the State of Illinois Capital Development Board'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 State of Illinois Capital Development Board has not presented a management's discussion and analysis and budgetary comparison information for the General Revenue Fund that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois Capital Development Board's basic financial statements. The accompanying supplementary information, as identified in the Financial Statement Report section of the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. This supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

*Clifton Henderson LLP*

Springfield, Illinois  
November 4, 2005

**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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois Capital Development Board as of and for the year ended June 30, 2005, which collectively comprise State of Illinois Capital Development Board's basic financial statements, and have issued our report thereon dated November 4, 2005. 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 State of Illinois Capital Development Board's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Illinois Capital Development Board's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 05-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Illinois Capital Development Board'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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 05-1.

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

*Clifton Henderson LLP*

Springfield, Illinois  
November 4, 2005

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2005**

**CURRENT FINDINGS - GOVERNMENT AUDITING STANDARDS**

**Finding No. 05-1 - Inadequate Internal Control and Financial Reporting for Uninsured and Uncollateralized Deposits**

The Capital Development Board (CDB) did not maintain adequate controls over the collateralization and financial reporting of locally held construction retention trust accounts.

At June 30, 2005, CDB had a total bank balance of \$9.846 million held in local funds as retainage on open construction projects. A total of \$6.06 million of the bank balance was exposed to custodial credit risk as these deposits were uninsured and uncollateralized. We noted the following financial reporting errors and internal control weaknesses:

- The accounting information on the SCO-579 Generally Accepted Accounting Principles (GAAP) reporting form for the CDB capital project funds originally filed with the Comptroller's Office misreported \$951,000 of deposits as having no custodial credit risk. These deposits were subsequently determined to be uninsured and uncollateralized and were exposed to custodial credit risk.

GAAP requires disclosure and proper valuation of the amount of uninsured and uncollateralized deposits. In addition, the SCO-579 form defines which deposits meet the criteria for reporting as having no custodial credit risk.

- CDB personnel did not adequately monitor and identify uninsured deposits and require banks to pledge allowable securities to collateralize these uninsured deposits. The CDB confirmed biannually, with the individual banks holding the CDB deposits, the balance of the deposits held and whether these deposits were insured or if collateral was pledged to secure these deposits. However, information regarding the specific collateral pledged by the bank was never obtained or reviewed. In some instances, the bank confirmed deposits in excess of \$100,000 were fully insured. Further inquiry of bank personnel at the auditor's request revealed that these deposits were, in fact, insured only up to the \$100,000 FDIC coverage limit.

The Fiscal Control and Internal Auditing Act requires all State agencies to establish and maintain a system, or systems, of internal fiscal and administrative controls, which shall provide assurance that funds are safeguarded against loss and are properly accounted for to permit preparation of reliable financial reports (30 ILCS 10/3001). According to the State Officers and Employees Money Disposition Act (30 ILCS 230/2c), "Whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage, a bond, pledged securities, or other eligible collateral shall be obtained."

- CDB did not have a deposit policy for custodial credit risk.

The Public Funds Investment Act requires agencies investing public funds, including certificates of deposit and interest-bearing savings accounts, to adopt a written policy addressing safety of principal, collateral requirements, internal controls to prevent losses of funds, and other mandated guidelines (30 ILCS 235/2.5).

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2005**

**CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS* (CONTINUED)**

**Finding No. 05-1 - Inadequate Internal Control and Financial Reporting for Uninsured and Uncollateralized Deposits (Continued)**

The inaccurate reporting of deposits reduces the reliability of CDB's financial reporting and impacts the Office of the Comptroller's ability to prepare accurate statewide financial statements. As a result of deposits being inadequately monitored, uninsured, and uncollateralized, the CDB is at risk of these deposits not being returned to it in the event of a bank failure. Lack of a written policy for custodial credit risk increases the risk that agency objectives regarding safety of principal may not be achieved.

CDB management stated biannual confirmations and existing procedures had been deemed adequate to reflect accurate account balances, financial reporting, and insured and collateralized amounts of locally held funds. (Finding Code No. 05-1)

Recommendation:

We recommend CDB monitor bank balances and obtain appropriate documentation of collateral pledged for uninsured locally held deposits to ensure proper financial reporting. We further recommend that the CDB require banks to pledge securities to secure deposits in excess of the FDIC limit of \$100,000. Also, a deposit policy addressing custodial credit risk and other mandated guidelines should be adopted as required by the Public Funds Investment Act.

Agency Response:

The December 31, 2005 retention trust confirmation will contain a request for the status of any possible collateralization for accounts in excess of the insured threshold of \$100,000. An analysis of the responses will be used to determine the actual risk to the State. CDB will also contact the Department of Financial and Professional Regulation to obtain their input concerning the risk. After those two analyses are completed, the Agency will decide on whether to continue using retention trust accounts, modify the wording, or discontinue the process. The analysis should be complete by June 30, 2006.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2005**

**PRIOR FINDINGS NOT REPEATED - *GOVERNMENT AUDITING STANDARDS***

**05-2 - Efficiency Initiative Payments**

During the prior year, the Capital Development Board (CDB) made payments for efficiency initiative billings from improper line item appropriations and funds. Also, the CDB did not receive guidance or documentation with the billings from CMS detailing from which line item appropriations savings were anticipated to occur, nor did they receive documentation or information from CMS detailing the nature and/or type of savings that CMS anticipated.

During our current examination, we noted that the CDB was making payments for efficiency initiative billings from the proper line item appropriations and funds. The CDB did receive guidance with the billings from CMS detailing from which line item appropriations savings occurred. (Finding Code 04-1)

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
STATEMENT OF NET ASSETS  
June 30, 2005  
(Expressed in Thousands)**

	<b>Governmental <u>Activities</u></b>
<b>ASSETS</b>	
Unexpended appropriations	\$ 111,904
Cash equity with State Treasurer	12,979
Cash and cash equivalents	9,846
Intergovernmental receivables	2,254
Due from other state funds	6,396
Other receivables	2,147
Loans receivable, net	140
Capital assets not being depreciated	63,389
Capital assets being depreciated	<u>191</u>
Total assets	<u>209,246</u>
 <b>LIABILITIES</b>	
Accounts payable and accrued liabilities	68,755
Intergovernmental payables	63,586
Due to other state funds	112
Deferred revenue	9,835
Compensated absences, short-term	78
Installment purchase obligations, short-term	26
Compensated absences, long-term	<u>701</u>
Total liabilities	<u>143,093</u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	63,554
Unrestricted	<u>2,599</u>
 <b>TOTAL NET ASSETS</b>	 <u><u>\$ 66,153</u></u>

These financial statements should be read only in connection with  
the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Charges for</u>	<u>Capital</u> <u>Grants and</u>	<u>Net</u> <u>(Expense)</u>
		<u>Services</u>	<u>Contributions</u>	<u>Revenue</u>
<b>GOVERNMENTAL ACTIVITIES</b>				
Education	\$ 497,341	\$ 23,197	\$ -	\$ (474,144)
General government	32,575	5,127	27,177	(271)
Interest on long-term debt	<u>9</u>	<u>-</u>	<u>-</u>	<u>(9)</u>
Total governmental activities	<u>\$ 529,925</u>	<u>\$ 28,324</u>	<u>\$ 27,177</u>	<u>(474,424)</u>
<b>GENERAL REVENUES</b>				
Other revenues				2
Appropriations from State resources				1,999,797
Reappropriations to future year(s)				(1,416,368)
Lapsed appropriations				(71,236)
Net change in liabilities for reappropriated accounts				73,369
<b>TRANSFERS</b>				
Receipts collected and transmitted to State Treasury				(128)
Capital transfers to other State agencies				(131,061)
Operating transfers to other State agencies				<u>(1,277)</u>
Total general revenues and transfers				<u>453,098</u>
<b>CHANGE IN NET ASSETS</b>				(21,326)
<b>NET ASSETS, JULY 1, 2004</b>				<u>87,479</u>
<b>NET ASSETS, JUNE 30, 2005</b>				<u>\$ 66,153</u>

These financial statements should be read only in connection with  
the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2005  
(Expressed in Thousands)**

	<b>General Revenue <u>Fund</u></b>	<b>Nonmajor <u>Funds</u></b>	<b>Total Governmental <u>Funds</u></b>
<b>ASSETS</b>			
Unexpended appropriations	\$ -	\$ 111,904	\$ 111,904
Cash equity with State Treasurer	1	12,978	12,979
Cash and cash equivalents	-	9,846	9,846
Intergovernmental receivables	-	2,254	2,254
Due from other state funds	-	6,396	6,396
Other receivables	-	2,147	2,147
Loans receivable, net	<u>140</u>	<u>-</u>	<u>140</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 141</u></b>	<b><u>\$ 145,525</u></b>	<b><u>\$ 145,666</u></b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ -	\$ 68,755	\$ 68,755
Intergovernmental payables	-	63,586	63,586
Due to other State funds	-	112	112
Deferred revenue	<u>-</u>	<u>9,835</u>	<u>9,835</u>
Total liabilities	<u>-</u>	<u>142,288</u>	<u>142,288</u>
<b>FUND BALANCES</b>			
Reserved for encumbrances	-	64	64
Reserved for loans and notes receivable	80	-	80
Unreserved, unrestricted:			
General Revenue Fund	61	-	61
Special Revenue Funds	<u>-</u>	<u>3,173</u>	<u>3,173</u>
Total fund balances	<u>141</u>	<u>3,237</u>	<u>3,378</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 141</u></b>	<b><u>\$ 145,525</u></b>	<b><u>\$ 145,666</u></b>

These financial statements should be read only in connection with  
the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2005  
(Expressed in Thousands)**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 3,378</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	63,580
Some liabilities reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:	
Installment purchase obligations	(26)
Compensated absences	<u>(779)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 66,153</u></u></b>

These financial statements should be read only in connection with the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

	<b>General Revenue Fund</b>	<b>Nonmajor Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Federal capital grants	\$ -	\$ 27,177	\$ 27,177
Licenses and fees	-	5,127	5,127
Other charges for services	-	23,197	23,197
Other	<u>2</u>	<u>-</u>	<u>2</u>
Total revenues	<u>2</u>	<u>55,501</u>	<u>55,503</u>
<b>EXPENDITURES</b>			
Education	-	497,341	497,341
General government	-	30,941	30,941
Debt service - principal	-	94	94
Debt service - interest	-	10	10
Capital outlays	<u>284</u>	<u>113,630</u>	<u>113,914</u>
Total expenditures	<u>284</u>	<u>642,016</u>	<u>642,300</u>
Deficiency of revenues over expenditures	<u>(282)</u>	<u>(586,515)</u>	<u>(586,797)</u>
<b>OTHER SOURCES (USES)</b>			
Appropriations from State resources	-	1,999,797	1,999,797
Reappropriations to future year(s)	-	(1,416,368)	(1,416,368)
Lapsed appropriations	-	(71,236)	(71,236)
Receipts collected and transmitted to State Treasury	(70)	(58)	(128)
Net change in liabilities for reappropriated accounts	-	73,369	73,369
Operating transfers out	<u>-</u>	<u>(1,277)</u>	<u>(1,277)</u>
Total other sources (uses)	<u>(70)</u>	<u>584,227</u>	<u>584,157</u>
<b>CHANGE IN FUND BALANCE</b>	<b>(352)</b>	<b>(2,288)</b>	<b>(2,640)</b>
<b>FUND BALANCE JULY 1, 2004</b>	<u>493</u>	<u>5,525</u>	<u>6,018</u>
<b>FUND BALANCE JUNE 30, 2005</b>	<u>\$ 141</u>	<u>\$ 3,237</u>	<u>\$ 3,378</u>

These financial statements should be read only in connection with  
the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
RECONCILIATION OF THE CHANGE IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

**NET CHANGE IN FUND BALANCES - TOTAL  
GOVERNMENTAL FUNDS** \$ (2,640)

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures while  
governmental activities report depreciation expense to allocate  
those expenditures over the life of the assets. This is the amount  
by which capital outlays exceeded depreciation in the current period. 113,809

In the Statement of Activities, losses from impairment of capital assets  
as the result of construction stoppage are reported. This is the  
amount of the current year impairment loss. (1,681)

Some capital assets were transferred out to the other State agencies  
and, therefore, were removed from fund balance without any  
corresponding proceeds. (131,061)

Repayment of principal is an expenditure in the governmental  
funds, but the repayment reduces long-term liabilities in the  
Statement of Net Assets. 94

Some expenses reported in the Statement of Activities do not  
require the use of current financial resources and therefore  
are not reported as expenditures in governmental funds. These  
activities consist of:

Decrease in accrued interest	1
Decrease in compensated absences	152
	153

**CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ (21,326)

These financial statements should be read only in connection with  
the accompanying notes to the basic financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 1 - ORGANIZATION**

The Capital Development Board (“CDB”) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review by the Illinois General Assembly. The CDB operates under a budget approved by the General Assembly in which resources primarily from the Capital Development Fund and the School Construction Fund are appropriated for the use of the CDB. Activities of the CDB are subject to the authority of the Office of the Governor, the State’s chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor’s Office of Management and Budget, the State Treasurer’s Office, and the State Comptroller’s Office) as defined by the Illinois General Assembly. All funds appropriated to the CDB and all other cash received are under the custody and control of the State Treasurer with the exception of locally held retainage accounts as authorized by State law.

The CDB’s principal statutory functions and responsibilities are:

- a. To build or otherwise provide capital facilities and improvements for which money has been appropriated by the General Assembly.
- b. To conduct continuous studies into the costs of building or otherwise providing capital facilities.
- c. To conduct research for improvements in choice of material and systems and in construction methods for reducing construction costs and operating and maintenance costs of capital expenditure plans.
- d. To review and recommend periodic revisions in established building and construction codes, to promote public safety, energy efficiency and economy, including the use of solar energy, and reduce construction costs and operating and maintenance costs of capital facilities.
- e. To advise State agencies and units of local government, on request, on any matter related to the purpose of CDB and to assist State agencies in the preparation of their annual long-range capital expenditure plans.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the CDB 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 data included in the financial statements, summarized below are the more significant accounting policies.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(a) 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 CDB has no component units and is not a component unit of any other entity. However, because the CDB is not legally separate from the State of Illinois, the financial statements of the CDB are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois 62704-1871.

**(b) Basis of Presentation**

The financial statements of the State of Illinois, Capital Development Board, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the CDB. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the CDB, which consist only of governmental activities, are reported under the general government and education functions in the State of Illinois' Comprehensive Annual Financial Report. A brief description of the Department's government-wide fund financial statements is as follows:

Government-Wide Statements

The government-wide statement of net assets and statement of activities report the overall financial activity of the CDB. Eliminations have been made to minimize the double-counting of internal activities of the CDB.

The statement of net assets presents the assets and liabilities of the CDB's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of Presentation** (Continued)

Government-Wide Statements (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for the general government and education functions of the CDB's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the CDB's funds. The emphasis on fund financial statements is the major governmental fund, which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The CDB administers the following major governmental fund (or portion thereof in the case of shared funds - see Note 2d) of the State:

**General** - This is the State's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the CDB and accounted for in the general fund include, among others, general government and education.

The General Fund, as presented in this Agency's financial statements, is the portion of the State of Illinois General Revenue Fund financial resources obtained and used by the Agency and is included only to present the financial position and operations of the Agency in its entirety.

Nonmajor funds consist of Special Revenue and Capital Projects Funds.

**Special Revenue** - Transactions to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes pursuant to the Capital Development Board Revolving Fund Act, the Asbestos Abatement Act, the Act establishing the Illinois Building Commission, the School Infrastructure Fund Act, the Fund for Illinois' Future Act, and certain sections of the State Finance Act are accounted for in the special revenue fund. All the special revenue funds in the report are held in the State treasury and all are appropriated. The special revenue fund type includes the following funds:

The Capital Development Board Revolving Fund (215) is a non-shared fund that accounts for a 3.0 percent contract administration fee assessed on most CDB contracts in order to fund the internal operations of the CDB.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of Presentation** (Continued)

Fund Financial Statements (Continued)

The Asbestos Abatement Fund (224) is a shared fund that accounts for recoveries from lawsuits filed by the Attorney General for the State and CDB to use for statewide asbestos survey programs.

The School Infrastructure Fund (568) is a shared fund that is funded through the General Revenue Fund for the purpose of paying and discharging annually the principal and interest on bonded indebtedness for the construction of school improvements under the School Construction Law. Annual surplus in the fund is to be used for scheduled payments to the School Technology Revolving Fund, costs incurred by the State Board of Education and CDB to administer the programs under the School Construction Law, and to pay for grants due under the School Construction Law.

The Fund for Illinois' Future (611) is a shared fund that is funded through the General Revenue Fund for the purpose of improving public infrastructure in Illinois. There was no activity in this fund during the current fiscal year.

The Tobacco Settlement Recovery Fund (733) is a shared fund that is governed by an amendment to the State Finance Act and is appropriated to CDB for capital or other projects relating to health care issues.

**Capital Projects Funds** - Transactions related to resources obtained and used for the acquisition or construction of major capital facilities, including those provided to political subdivisions and other public organizations, are accounted for in capital projects funds. Such resources are derived principally from proceeds of general obligation bond issues, federal grants, public school district contributions, and operating transfers from general funds of the State. All the capital projects funds in the report are held in the State treasury. Capital expenditures from the capital projects funds, except Fund 617 CDB Contributory Trust Fund which is nonappropriated, are appropriated for projects extending beyond the current budget year. The capital projects fund type includes the following funds:

The Capital Development Fund (141) is a shared fund that receives general obligation bond proceeds in order to build capital facilities for the State.

The School Construction Fund (143) is a shared fund that receives general obligation bond proceeds in order to build elementary and secondary schools in the State.

The CDB Contributory Trust Fund (617) is a non-shared fund that receives reimbursements from other State agencies for projects financed under various federal programs, public school district contributions, insurance proceeds, and settlements in order to build capital facilities in the State.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Basis of Presentation** (Continued)

Fund Financial Statements (Continued)

The Build Illinois Bond Fund (971) is a shared fund that receives Build Illinois Bond proceeds in order to build capital facilities for State universities and local units of government in the State.

**(c) Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions in which the CDB gives (receives) value without receiving (or giving) equal value in exchange include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, (1) principal and interest on formal debt issues, such as bonds and capital leases, are recorded only when payment is due and (2) compensated absences and claims and judgments are recorded when they are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include fees, charges for services, and intergovernmental grants. All other revenue sources are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Shared Fund Presentation**

The CDB has the following shared funds:

- General Revenue Fund (001)
- Capital Development Fund (141)
- School Construction Fund (143)
- Asbestos Abatement Fund (224)
- School Infrastructure Fund (568)
- Fund for Illinois' Future (611) (no current year activity)
- Tobacco Settlement Recovery Fund (733)
- Build Illinois Bond Fund (971)

The financial statement presentation for CDB's shared funds represents only the portion of shared funds that can be directly attributed to the operations of the CDB. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the CDB's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations reappropriated to the subsequent fiscal year.

Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records. The amounts reported are net of any reappropriations to subsequent years and the difference between current and prior year liabilities for reappropriated accounts. Reappropriations reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting a portion of the appropriation in more than one fiscal year.

Reappropriation to Future Year(s)

This contra revenue account reduces current year appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and reappropriations to subsequent years according to SAMS records.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(d) Shared Fund Presentation (Continued)**

Receipts Collected and Transmitted to State Treasury

This “other financing use” account represents all cash receipts received during the fiscal year from SAMS records.

Net Change in Liabilities for Reappropriated Accounts

This account reflects the amount which should be added to or subtracted from the current year appropriation for shared funds to reflect the increase or decrease from prior year to current year for amounts included in obligations for reappropriated accounts which are liabilities at June 30 of the prior year and June 30 of the current year.

**(e) Eliminations**

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet as interfund receivables and payables have been eliminated in the government-wide statement of net assets.

**(f) Cash Equity With State Treasurer**

Cash equity with State Treasurer consists of deposits held in the State Treasury.

**(g) Cash and Cash Equivalents**

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at the time of purchase. Cash and cash equivalents consist principally of cash held in local bank accounts as retainage due to contractors.

**(h) Interfund Transactions and Transactions With State of Illinois Component Units**

The CDB has the following types of interfund transactions between CDB funds and funds of other State agencies:

Services provided and used - sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the fund balance sheets or fund statements of net assets.

Reimbursements - repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Interfund Transactions and Transactions With State of Illinois Component Units  
(Continued)**

Transfers - flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the funds receiving transfers.

The Agency also has activity with various component units of the State of Illinois for capital programs appropriated by the General Assembly.

**(i) Capital Assets**

Capital assets, which include construction in progress and equipment, are reported at cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method. Construction in progress is capitalized as project costs are incurred and is transferred to the administering State agency upon substantial completion.

Capitalization thresholds and the estimated useful lives are as follows:

<u>Capital Asset Category</u>	<u>Capitalization Threshold</u>	<u>Estimated Useful Life</u>
Construction in progress	\$ 25,000	N/A
Equipment	\$ 5,000	3-25

**(j) Compensated Absences**

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated vacation and sick leave balances for CDB employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., social security and Medicare tax).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50 percent cash value) would only be used after all days with no cash value are depleted. Any sick days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(k) Fund Balances**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

**(l) Net Assets**

In the government-wide financial statements, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt - This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

Unrestricted - This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

**(m) 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 3 - DEPOSITS AND INVESTMENTS**

**Deposits**

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. The CDB independently manages cash and cash equivalents maintained outside the State Treasury that are held in trust agreements for the retention of a percentage of construction contract prices.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)**

**Deposits (Continued)**

Cash on deposit for locally held funds had a carrying amount and bank balance of \$9.846 million at June 30, 2005. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. The CDB does not have a deposit policy for custodial credit risk. Of the total bank balance, \$91 thousand was exposed to custodial credit risk as uninsured with collateral held by the pledging financial institution's trust department not in the State's name, and \$6.060 million was exposed to custodial credit risk as uninsured and uncollateralized.

Deposits in the custody of the State Treasurer, or in transit, totaled \$12.979 million at June 30, 2005. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

**NOTE 4 - INTERFUND BALANCES AND ACTIVITY**

**(a) Due From Other State Funds**

The following balances (amounts expressed in thousands) at June 30, 2005 represent amounts due from other State of Illinois funds:

<u>Fund</u>	<u>Due From State Funds</u>	<u>Description/Purpose</u>
Nonmajor funds	<u>\$ 6,396</u>	Due from other funds for construction services provided.

**(b) Due to Other State Funds**

The following balances (amount expressed in thousands) at June 30, 2005 represent amounts due to other State of Illinois funds:

<u>Fund</u>	<u>Due Other State Funds</u>	<u>Due Other State Fiduciary Funds</u>	<u>Description/Purpose</u>
Nonmajor funds	<u>\$ 110</u>	<u>\$ 2</u>	Due to internal service funds of the State for purchases of services and goods due from other nonmajor governmental funds for unexpended, capital project grant, and contract amounts and other State fiduciary funds for employee health insurance and postemployment benefits.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 4 - INTERFUND BALANCES AND ACTIVITY (CONTINUED)**

**(c) Transfers to/from Other Funds**

Interfund transfers out (amount expressed in thousands) for the year ended June 30, 2005 were as follows:

<u>Fund</u>	<u>Transfers Out to Other State Funds</u>	<u>Description/Purpose</u>
Nonmajor governmental funds	<u>\$ 1,277</u>	Transfers to assist State budget shortfalls.

**NOTE 5 - LOANS RECEIVABLE**

Loans receivable in the General Fund are comprised of \$15,108 (in thousands) receivable from certain port districts. The receivable from port districts consists of the following:

Illinois International Port District (a)	\$ 14,968
Tri-City Port District (b)	<u>140</u>
Total	15,108
Less allowance for uncollectible loans	<u>(14,968)</u>
<b>Loans receivable, net</b>	<b><u>\$ 140</u></b>

Loan agreements between the port districts and CDB require payments to CDB based on percentages of port district income or gross receipts, as defined in the agreements. The status of collections is as follows:

- (a) The Illinois International Port District's gross receipts, as defined by the loan agreement, have been insufficient to cause any payments to be made to CDB. While the loan agreement is not technically in default, the ultimate collectibility of the receivable is dependent upon the achievement of sufficient gross receipts levels, as defined; accordingly, CDB has reserved the entire remaining amount of the Illinois International Port District receivable as uncollectible as of June 30, 2005.
- (b) The Tri-City Port District income levels causing payment to be made to CDB have been adequate to support the loan receivable balance. The District had paid over \$2.5 million of the initial \$2.7 million receivable established in 1977.

Should the port districts ultimately default on these obligations, no future or present cash outlay by CDB or the State would be required as the receivables represent previous outlays.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2005</u>
Governmental activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 82,225	\$ 113,906	\$ 1,681	\$ (131,061)	\$ 63,389
Capital assets being depreciated:					
Equipment	1,256	8	73	-	1,191
Less accumulated depreciation:					
Equipment	<u>968</u>	<u>105</u>	<u>73</u>	<u>-</u>	<u>1,000</u>
Total capital assets being depreciated, net	<u>288</u>	<u>(97)</u>	<u>-</u>	<u>-</u>	<u>191</u>
<b>Governmental activity capital assets, net</b>	<u>\$ 82,513</u>	<u>\$ 113,809</u>	<u>\$ 1,681</u>	<u>\$ (131,061)</u>	<u>\$ 63,580</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2005 was charged to functions as follows:

General government	<u>\$ 105</u>
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**NOTE 7 - LONG-TERM OBLIGATIONS**

**(a) Changes in Long-Term Obligations**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2005 were as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 931	\$ 530	\$ 682	\$ 779	\$ 78
Installment purchase obligations	<u>120</u>	<u>-</u>	<u>94</u>	<u>26</u>	<u>26</u>
<b>Total governmental activities</b>	<u>\$ 1,051</u>	<u>\$ 530</u>	<u>\$ 776</u>	<u>\$ 805</u>	<u>\$ 104</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 7 - LONG-TERM OBLIGATIONS (CONTINUED)**

**(b) Installment Purchase Obligations**

The CDB has acquired certain computer equipment through installment purchase arrangements in the Capital Development Fund. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2005 are as follows:

<b>Year Ending <u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2006	\$ <u>26</u>	\$ <u>-</u>	\$ <u>26</u>

**NOTE 8 - PENSION PLAN**

Substantially all of the CDB's full-time employees who are not eligible for participation in another State-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The CDB pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2005, the employer contribution rate was 16.107 percent. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the CDB) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the CDB) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 9 - POST-EMPLOYMENT BENEFITS**

The State provides health, dental, and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure for the State in the Illinois Comprehensive Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by department for annuitants and their dependents nor active employees and their dependents.

**NOTE 10 - RISK MANAGEMENT**

The CDB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; workers compensation; and natural disasters. The State retains the risk of loss (i.e., self-insured).

The CDB's risk management activities for 2005 are financed through appropriations to the Illinois Department of Central Management Services and are accounted for in the general fund of the State. The claims are not considered to be a liability of the CDB and, accordingly, have not been reported in the CDB's financial statements for the year ended June 30, 2005. There have been no settlements that exceeded insurance coverage during the last three fiscal years.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

**(a) Construction Commitments**

**Components of Construction in Progress**

<u>Project</u>	<b>As of and for the Year Ended June 30, 2005 (Expressed in Thousands)</b>			
	<u>Project Authorization</u>	<u>Expended Through June 30</u>	<u>Committed at June 30</u>	<u>Available Authorization</u>
Sparta World Shooting Complex	\$ 29,000	\$ 4,404	\$ 22,089	\$ 2,507
IYC - St. Charles Reception and Classification Building	26,149	1,067	987	24,095
Alton MHC - Addition	15,824	4,785	354	10,685
Menard Correctional Center Administrative Building	13,500	810	564	12,126

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 11 - COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**(a) Construction Commitments (Continued)**

<u>Project</u>	<b>As of and for the Year Ended June 30, 2005 (Expressed in Thousands)</b>			
	<u>Project Authorization</u>	<u>Expended Through June 30</u>	<u>Committed at June 30</u>	<u>Available Authorization</u>
New Academy Camp Lincoln Springfield	\$ 15,270	\$ 1,334	\$ 13,476	\$ 460
William G. Stratton Building - renovate or replace	11,583	-	-	11,583
Springfield State Emergency Operations Center	14,555	8,158	6,329	68
IYC - Harrisburg Vocational and Medical Building	10,250	493	371	9,386
Other (less than \$10,000,000)	<u>279,497</u>	<u>42,338</u>	<u>47,681</u>	<u>189,478</u>
<b>Total</b>	<b><u>\$ 415,628</u></b>	<b><u>\$ 63,389</u></b>	<b><u>\$ 91,851</u></b>	<b><u>\$ 260,388</u></b>

**(b) Litigation**

The CDB is subject to material loss contingencies resulting from the suspension of two correctional facilities. The facilities, located in Hopkins Park and Grayville, were both between 1/4 and 1/3 complete at the time of suspension in fiscal year 2004. During the current year, the Governor's Office of Management and Budget terminated the projects.

Each project involves several contractors. Nearly all of the contractors have made claims against the CDB as a result of suspension of work on the projects. An estimate of possible loss cannot be determined at this time.

In addition to the items noted above, the CDB is routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these additional matters is not expected to have a material effect on the financial position or results of operations of the CDB.

**(c) Operating Leases**

The CDB leases equipment, buildings, and office space under the terms of noncancelable operating lease agreements, not extending past the end of the fiscal year, that require the CDB to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$264,000 for the year ended June 30, 2005.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
Year Ended June 30, 2005**

**NOTE 12 - CHANGE IN THE APPLICATION OF AN ACCOUNTING PRINCIPLE**

During the current fiscal year, there was a change in the CDB's application of accounting principles related to fund balances reported as reserved for encumbrances. CDB reappropriated encumbrances outstanding at the end of the current fiscal year as part of the subsequent year's budget. Resources for these reappropriated accounts are available for the subsequent year's budget and, therefore, should not be included as a component of the reserved for encumbrance fund balance in the fund financial statements. There was no significant impact on the CDB's financial statements as a result of this change in the application of an accounting principle.

**NOTE 13 - IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENT**

During the current fiscal year, the CDB adopted Government Accounting Standards Board Statements No. 40, *Deposit and Investment Risk Disclosures* (GASB No. 40).

GASB No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The purpose of this statement is to inform financial statement users about deposit and investment risks that could affect a government's ability to provide services and meet its obligations as they become due. The disclosures required by this statement provide users with information to assess common risks inherent in deposit and investment transactions. There was no significant impact on the CDB's financial statements as a result of adopting this statement.

This information is an integral part of the accompanying financial statements.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
June 30, 2005  
(Expressed in Thousands)**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total (Memorandum only)</u>
<b>ASSETS</b>			
Unexpended appropriations	\$ 58	\$ 111,846	\$ 111,904
Cash equity with State Treasurer	1,125	11,853	12,978
Cash and cash equivalents		9,846	9,846
Intergovernmental receivables	-	2,254	2,254
Due from other state funds	-	6,396	6,396
Other receivables	<u>2,147</u>	<u>-</u>	<u>2,147</u>
 <b>TOTAL ASSETS</b>	 <u>\$ 3,330</u>	 <u>\$ 142,195</u>	 <u>\$ 145,525</u>
 <b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 105	\$ 68,650	\$ 68,755
Intergovernmental payables	-	63,586	63,586
Due to other State funds	14	98	112
Deferred revenue	<u>-</u>	<u>9,835</u>	<u>9,835</u>
 Total liabilities	 <u>119</u>	 <u>142,169</u>	 <u>142,288</u>
 <b>FUND BALANCES</b>			
Reserved for encumbrances	38	26	64
Unreserved, unrestricted	<u>3,173</u>	<u>-</u>	<u>3,173</u>
 Total fund balances	 <u>3,211</u>	 <u>26</u>	 <u>3,237</u>
 <b>TOTAL LIABILITIES AND FUND BALANCES</b>	 <u>\$ 3,330</u>	 <u>\$ 142,195</u>	 <u>\$ 145,525</u>

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total (Memorandum only)</u>
<b>REVENUES</b>			
Federal capital grants	\$ -	\$ 27,177	\$ 27,177
License and fees	5,127	-	5,127
Other charges for services	-	23,197	23,197
	<u>5,127</u>	<u>50,374</u>	<u>55,501</u>
Total revenues			
<b>EXPENDITURES</b>			
Education	1,226	496,115	497,341
General government	6,634	24,307	30,941
Debt service - principal	18	76	94
Debt service - interest	1	9	10
Capital outlays	1,453	112,177	113,630
	<u>9,332</u>	<u>632,684</u>	<u>642,016</u>
Total expenditures			
Deficiency of revenues over expenditures	<u>(4,205)</u>	<u>(582,310)</u>	<u>(586,515)</u>
<b>OTHER SOURCES (USES)</b>			
Appropriations from State resources	14,746	1,985,051	1,999,797
Reappropriations to future year(s)	(9,110)	(1,407,258)	(1,416,368)
Lapsed appropriations	(2,027)	(69,209)	(71,236)
Receipts collected and transmitted to State Treasury	-	(58)	(58)
Net change in liabilities for reappropriated accounts	(330)	73,699	73,369
Operating transfers out	(1,277)	-	(1,277)
	<u>2,002</u>	<u>582,225</u>	<u>584,227</u>
Total other sources (uses)			
<b>CHANGE IN FUND BALANCES</b>	(2,203)	(85)	(2,288)
<b>FUND BALANCES, JULY 1, 2004</b>	<u>5,414</u>	<u>111</u>	<u>5,525</u>
<b>FUND BALANCES, JUNE 30, 2005</b>	<u>\$ 3,211</u>	<u>\$ 26</u>	<u>\$ 3,237</u>

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING BALANCE SHEET  
SPECIAL REVENUE FUNDS  
June 30, 2005  
(Expressed in Thousands)**

	<b>C.D.B. Revolving Fund <u>215</u></b>	<b>Asbestos Abatement Fund <u>224</u></b>	<b>School Infrastructure Fund <u>568</u></b>	<b>Tobacco Settlement Recovery Fund <u>733</u></b>	<b>Total (Memorandum Only) <u>          </u></b>
<b>ASSETS</b>					
Unexpended appropriations	\$ -	\$ -	\$ -	\$ 58	\$ 58
Cash equity with State					
Treasurer	1,125	-	-	-	1,125
Other receivables	<u>2,147</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,147</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,272</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 58</u></b>	<b><u>\$ 3,330</u></b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 47	\$ -	\$ -	\$ 58	\$ 105
Due to other State funds	<u>14</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Total liabilities	<u>61</u>	<u>-</u>	<u>-</u>	<u>58</u>	<u>119</u>
<b>FUND BALANCES</b>					
Reserved for encumbrances	38	-	-	-	38
Unreserved, unrestricted	<u>3,173</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,173</u>
Total fund balances	<u>3,211</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,211</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 3,272</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 58</u></b>	<b><u>\$ 3,330</u></b>

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
SPECIAL REVENUE FUNDS  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

	<b>C.D.B. Revolving Fund <u>215</u></b>	<b>Asbestos Abatement Fund <u>224</u></b>	<b>School Infrastructure Fund <u>568</u></b>	<b>Tobacco Settlement Recovery Fund <u>733</u></b>	<b>Total (Memorandum Only) <u>Only</u></b>
<b>REVENUES</b>					
License and fees	\$ 5,127	\$ -	\$ -	\$ -	\$ 5,127
<b>EXPENDITURES</b>					
Education	-	-	1,224	2	1,226
General government	6,005	19	569	41	6,634
Debt service - principal	18	-	-	-	18
Debt service - interest	1	-	-	-	1
Capital outlays	8	-	-	1,445	1,453
Total expenditures	<u>6,032</u>	<u>19</u>	<u>1,793</u>	<u>1,488</u>	<u>9,332</u>
Deficiency of revenues over expenditures	<u>(905)</u>	<u>(19)</u>	<u>(1,793)</u>	<u>(1,488)</u>	<u>(4,205)</u>
<b>OTHER SOURCES (USES)</b>					
Appropriations from state resources	-	1,526	1,824	11,396	14,746
Reappropriations to future year(s)	-	(1,507)	-	(7,603)	(9,110)
Lapsed appropriations	-	-	(52)	(1,975)	(2,027)
Net change in liabilities for reappropriated accounts	-	-	-	(330)	(330)
Operating transfers out	<u>(1,277)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,277)</u>
Total other sources (uses)	<u>(1,277)</u>	<u>19</u>	<u>1,772</u>	<u>1,488</u>	<u>2,002</u>
<b>CHANGE IN FUND BALANCES</b>	(2,182)	-	(21)	-	(2,203)
<b>FUND BALANCES, JULY 1, 2004</b>	<u>5,393</u>	<u>-</u>	<u>21</u>	<u>-</u>	<u>5,414</u>
<b>FUND BALANCES, JUNE 30, 2005</b>	<u>\$ 3,211</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,211</u>

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING BALANCE SHEET  
CAPITAL PROJECTS FUNDS  
June 30, 2005  
(Expressed in Thousands)**

	<b>Capital Development Fund <u>141</u></b>	<b>School Construction Fund <u>143</u></b>	<b>CDB Contributory Trust Fund <u>617</u></b>	<b>Build Illinois Bond Fund <u>971</u></b>	<b>Total (Memorandum Only)</b>
<b>ASSETS</b>					
Unexpended appropriations	\$ 44,981	\$ 63,102	\$ -	\$ 3,763	\$ 111,846
Cash equity with State Treasurer	-	-	11,853	-	11,853
Cash and cash equivalents	8,860	-	321	665	9,846
Intergovernmental receivables	-	-	2,254	-	2,254
Due from other state funds	-	-	6,396	-	6,396
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b><u>\$ 53,841</u></b>	<b><u>\$ 63,102</u></b>	<b><u>\$ 20,824</u></b>	<b><u>\$ 4,428</u></b>	<b><u>\$ 142,195</u></b>
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$ 53,717	\$ -	\$ 10,505	\$ 4,428	\$ 68,650
Intergovernmental payables	-	63,102	484	-	63,586
Due to other State funds	98	-	-	-	98
Deferred revenue	-	-	9,835	-	9,835
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>53,815</u>	<u>63,102</u>	<u>20,824</u>	<u>4,428</u>	<u>142,169</u>
<b>FUND BALANCES</b>					
Reserved for encumbrances	26	-	-	-	26
Unreserved, unrestricted	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>26</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 53,841</u></b>	<b><u>\$ 63,102</u></b>	<b><u>\$ 20,824</u></b>	<b><u>\$ 4,428</u></b>	<b><u>\$ 142,195</u></b>

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
CAPITAL PROJECTS FUNDS  
For the Year Ended June 30, 2005  
(Expressed in Thousands)**

	<b>Capital Development Fund <u>141</u></b>	<b>School Construction Fund <u>143</u></b>	<b>CDB Contributory Trust Fund <u>617</u></b>	<b>Build Illinois Bond Fund <u>971</u></b>	<b>Total (Memorandum Only)</b>
<b>REVENUES</b>					
Federal capital grants	\$ -	\$ -	\$ 27,177	\$ -	\$ 27,177
Other charges for services	-	-	23,197	-	23,197
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	-	-	50,374	-	50,374
<b>EXPENDITURES</b>					
Education	108,254	350,129	22,318	15,414	496,115
General Government	19,807	-	-	4,500	24,307
Debt service - principal	76	-	-	-	76
Debt service - interest	9	-	-	-	9
Capital outlays	78,412	-	28,056	5,709	112,177
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	206,558	350,129	50,374	25,623	632,684
Deficiency of revenues over expenditures	<hr/> (206,558)	<hr/> (350,129)	<hr/> -	<hr/> (25,623)	<hr/> (582,310)
<b>OTHER SOURCES (USES)</b>					
Appropriations from state resources	1,230,484	561,506	-	193,061	1,985,051
Reappropriations to future year(s)	(971,830)	(273,331)	-	(162,097)	(1,407,258)
Lapsed appropriations	(65,734)	-	-	(3,475)	(69,209)
Receipts collected and transmitted to State Treasury	(58)	-	-	-	(58)
Net change in liabilities for reappropriated accounts	13,611	61,954	-	(1,866)	73,699
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total other sources (uses)	206,473	350,129	-	25,623	582,225
<b>CHANGE IN FUND BALANCES</b>	(85)	-	-	-	(85)
<b>FUND BALANCES, JULY 1, 2004</b>	<hr/> 111	<hr/> -	<hr/> -	<hr/> -	<hr/> 111
<b>FUND BALANCES, JUNE 30, 2005</b>	<hr/> <u>\$ 26</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ -</u>	<hr/> <u>\$ 26</u>