

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

**FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2014**

**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 Year Ended June 30, 2014

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STATE OF ILLINOIS  
IMSA FUND FOR ADVANCEMENT OF EDUCATION  
(A Component Unit of the State of Illinois)  
FINANCIAL AUDIT  
For the Year Ended June 30, 2014

**AGENCY OFFICIALS**

Vice President of Strategy and Advancement – Ms. Catherine C. Veal  
Illinois Mathematics and Science Academy

Executive Director of Development – Mr. Paul F. Milano  
Illinois Mathematics and Science Academy

**BOARD OF DIRECTORS**

Mr. Anil Ahuja (2/5/2014 to Current)	Mr. Steve Chen (2/14/2014 to Current)
Mr. Aziz Asphahani (2/5/2014 to Current)	Mr. Steve Collens (2/14/2014 to Current)
Mr. Bil Becker (2/5/2014 to Current)	Mr. Troy Henikoff (4/29/2014 to Current)
Ms. Pamela Blackwell	Ms. Mana Ionescu (2/14/2014 to Current)
Vice President (to 5/22/2014)	Mr. Tom Kormmeier (4/29/2014 to Current)
Chair of Governance	Ms. Kim Taylor (2/14/2014 to Current)
Mr. Joe Born (4/29/2014 to Current)	Mr. Alex Weiner (2/5/2014 to Current)
Dr. Ross Hemphill	Mr. Sam Yagan (2/18/2014 to Current)
Vice President - 5/22/2014 to Current	Mr. Kapil Chaudhary (to 1/12/2014)
Mr. John Hoesley	Mr. Scott Crawford (to 10/8/2013)
President	Mr. Vasu Kulkarni (to 10/31/2013)
Dr. Stephanie Pace Marshall	Dr. Glenn “Max” McGee (to 8/23/2014)
Mr. Paul Milano	Mr. Dan Mueth (to 6/28/2014)
Secretary (non-voting)	Ms. Eileen Murphy (4/29/2014 to Current)
Mr. Michael Suh	Mr. Joseph Nolan
Chair of Finance	Mr. Jacob Plummer
Treasurer	Mr. Jay Porter (4/29/2014 to Current)
Mr. Glenn Rippie	Mr. Aalap Shah (2/5/2014 to Current)
Mr. Andre Reynolds (2/5/2014 to Current)	

The Fund's office is located at: 1500 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)  
**FINANCIAL AUDIT**  
For the Year Ended June 30, 2014

**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, 2014 was performed by Borschsnack, Pelletier & Co.

Based on their audit, the auditors expressed an unmodified opinion on the Fund's basic financial statements as of and for the years ended June 30, 2014.

**EXIT CONFERENCE**

The IMSA Fund for Advancement of Education waived holding an exit conference in a communication from Susan Albrecht dated November 19, 2014.



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

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

And

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

### ***Report on the Financial Statements***

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 year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise IMSA Fund for Advancement of Education's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

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, 2014, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Report on Summarized Comparative Information***

We have previously audited the IMSA Fund for Advancement of Education's 2013 financial statements, and we expressed an unmodified audit opinion on the respective financial statements of the business-type activities of the IMSA Fund for Advancement of Education in our report dated November 26, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-11 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.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IMSA Fund for Advancement of Education's internal control over financial reporting and compliance.

*Borschnack, Belknap & Co.*

November 19, 2014

**STATE OF ILLINOIS**  
**IMSA FUND FOR ADVANCEMENT OF EDUCATION**  
(A Component Unit of the State of Illinois)  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

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 Notes to the Financial Statements as a complete financial report.

### **Statement of Net Position**

The Statement of Net Position presents the assets, liabilities, and net position 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 POSITION** For the Years Ended June 30,

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,227,832	\$ 774,852
Investments	5,401,466	4,112,117
Accounts Receivable	38,182	103,669
Contribution Advances	219,379	91,928
Other Receivables	6,689	-
Prepaid Expenses	19,058	5,881
Pledges Receivable, Net	<u>621,564</u>	<u>995,755</u>
<b>TOTAL ASSETS</b>	<u>\$ 7,534,170</u>	<u>\$ 6,084,202</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 9,802	\$ 15,146
Unearned Revenue	<u>517,950</u>	<u>8,662</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 527,752</u>	<u>\$ 23,808</u>
<b>NET POSITION</b>		
Unrestricted	\$ 5,623,062	\$ 4,760,029
Restricted, Expendable	1,250,866	1,167,875
Restricted, Nonexpendable	<u>132,490</u>	<u>132,490</u>
<b>TOTAL NET POSITION</b>	<u>\$ 7,006,418</u>	<u>\$ 6,060,394</u>

**STATE OF ILLINOIS**  
**IMSA FUND FOR ADVANCEMENT OF EDUCATION**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

Fiscal year ended June 30, 2014 ended with an increase in net position of \$946,024. This change was influenced by a significant increase in the net gain on investments and an increase in contributions received in fiscal year 2014.

**Pledges Receivable**

Pledges receivable consist of 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 Position**

Net position is divided into three major categories. Unrestricted net position includes 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 position includes amounts that are subject to donor-imposed stipulations. These stipulations limit the use of the resources for specific purposes. Restricted, nonexpendable net position is to be held and invested in perpetuity with earnings thereof to be used for purposes as determined by donors making the contribution.

**STATE OF ILLINOIS**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

**Statement of Revenues, Expenses, and Changes in Net Position**

The purpose of the Statement of Revenues, Expenses, and Changes in Net Position 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, investment 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 POSITION**

For the Years Ended June 30,

	<b>2014</b>	<b>2013</b>
<b>OPERATING REVENUES</b>		
Contributions	\$ 1,400,969	\$ 1,207,972
Operating Agreement with Academy	284,692	274,739
Other Operating Revenues	21,142	15,415
<b>TOTAL OPERATING REVENUES</b>	<b>1,706,803</b>	<b>1,498,126</b>
<b>OPERATING EXPENSES</b>		
Academy Support	1,124,317	975,089
Management and General	74,599	73,958
Fundraising	77,018	67,836
Operating Agreement with Academy	284,692	274,739
<b>TOTAL OPERATING EXPENSES</b>	<b>1,560,626</b>	<b>1,391,622</b>
<b>OPERATING INCOME</b>	<b>146,177</b>	<b>106,504</b>
<b>NON-OPERATING REVENUES AND EXPENSES</b>	<b>799,847</b>	<b>260,696</b>
<b>CONTRIBUTIONS TO PERMANENT ENDOWMENTS</b>	<b>-</b>	<b>10,085</b>
<b>CHANGE IN NET POSITION</b>	<b>946,024</b>	<b>377,285</b>
<b>NET POSITION – BEGINNING OF YEAR</b>	<b>6,060,394</b>	<b>5,683,109</b>
<b>NET POSITION – END OF YEAR</b>	<b>\$ 7,006,418</b>	<b>\$ 6,060,394</b>

Operating Revenue

The total Operating Revenue of the Fund increased 14% from fiscal years 2013 to 2014. This was primarily the result of an increase in the amount of contributions received in fiscal year 2014.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

The Fund's investment income increased during fiscal year 2014. The Fund recorded interest and dividends income of \$65,192 and net gains on investments of \$734,655 during fiscal year 2014, as compared to interest and dividend income of \$58,011 and net gains on investments of \$202,685 for fiscal year 2013.

**Operating Expenses**

**Academy Support**

The Fund recognized \$1,124,317 and \$975,089 in fiscal years 2014 and 2013, 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 tax exemption status. 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 the benefit of another organization.

**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

The fiscal year 2014 Fundraising expenses increased 14% compared to fiscal year 2013. During fiscal year 2014, the Fund continued a telemarketing campaign which began in fiscal year 2013.

**Management and General**

Management and general expenses remained relatively constant from \$73,958 in fiscal year 2013 to \$74,599 in fiscal year 2014.

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.

**STATE OF ILLINOIS**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

Change in Net Position

Net Position increased by \$946,024 over the past fiscal year. During fiscal year 2014, increases in contributions and improved budgetary management allowed the Fund to continue to operate at a net gain after fiscal year 2013's net gain of \$377,285. The fund will continue 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, investing and financing activities. The Fund had a \$452,980 increase in cash and cash equivalents during fiscal year 2014.

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

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Supporters and Grantors	\$ 2,369,852	\$ 1,170,592
Cash Paid to Grantee, Suppliers and Academy Employees	<u>(1,420,681)</u>	<u>(933,729)</u>
	<u>949,171</u>	<u>236,863</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received	58,503	58,011
Cash Payment for the Purchase of Investments	<u>(2,958,765)</u>	<u>(2,471,158)</u>
Cash Proceeds from Sale of Investments	<u>2,404,071</u>	<u>1,974,985</u>
	<u>(496,191)</u>	<u>(438,162)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash Received for Permanent Endowments	-	10,085
	<u>-</u>	<u>10,085</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	452,980	(191,214)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>		
	<u>774,852</u>	<u>966,066</u>
<b>END OF YEAR</b>		
	<u>\$ 1,227,832</u>	<u>\$ 774,852</u>

**STATE OF ILLINOIS**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
For the Year Ended June 30, 2014

### **Economic Outlook**

The Fund continues to invest in various investment securities. During the current fiscal year, the overall economy and financial markets improved, whereas in the prior year the economy remained stable. The future economic outlook at year-end has improved during fiscal year 2014. However, investments were exposed to various risks such as interest rate, market and credit risks.

While the market environment remains steady, but uncertain, the Fund believes its prudent investment strategy and policies will result in improved results in future fiscal years.

**STATE OF ILLINOIS**  
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**STATEMENT OF NET POSITION**  
As of June 30, 2014  
(With Comparative Totals as of June 30, 2013)

	<b>2014</b>	<b>2013</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 1,227,832	\$ 774,852
Investments	5,268,976	3,979,627
Accounts Receivable	38,182	103,669
Contribution Advances	219,379	91,928
Other Receivables	6,689	-
Prepaid Expenses	19,058	5,881
Pledges Receivable, Net	422,232	324,215
Total Current Assets	7,202,348	5,280,172
<b>Non-Current Assets</b>		
Pledges Receivable, Net	199,332	671,540
Endowment Investments	132,490	132,490
Total Non-Current Assets	331,822	804,030
<b>TOTAL ASSETS</b>	7,534,170	6,084,202
<b>LIABILITIES</b>		
Accounts Payable	9,802	15,146
Unearned Revenue	517,950	8,662
<b>TOTAL LIABILITIES</b>	527,752	23,808
<b>NET POSITION</b>		
Unrestricted Net Assets	5,623,062	4,760,029
Restricted, Expendable	1,250,866	1,167,875
Restricted, Non-Expendable	132,490	132,490
<b>TOTAL NET POSITION</b>	\$ 7,006,418	\$ 6,060,394

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

**STATE OF ILLINOIS**  
**IMSA FUND FOR ADVANCEMENT OF EDUCATION**  
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**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

For the Year Ended June 30, 2014  
(With Comparative Totals for the Year Ended June 30, 2013)

	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>		
Contributions	\$ 1,400,969	\$ 1,207,972
Operating Agreement with Academy	284,692	274,739
Program Fees	19,917	13,740
In-Kind Contributions of Goods and Equipment	1,225	1,675
Total Operating Revenues	<u>1,706,803</u>	<u>1,498,126</u>
<b>Operating Expenses</b>		
Academy Support	1,124,317	975,089
Management and General	74,599	73,958
Fundraising	77,018	67,836
Operating Agreement with Academy	284,692	274,739
Total Operating Expenses	<u>1,560,626</u>	<u>1,391,622</u>
Operating Income	<u>146,177</u>	<u>106,504</u>
<b>Non-Operating Revenues (Expenses)</b>		
Interest and Dividend Income	65,192	58,011
Net Gain on Investments	734,655	202,685
Net Non-Operating Revenues (Expenses)	<u>799,847</u>	<u>260,696</u>
Income Before Other Revenues	<u>946,024</u>	<u>367,200</u>
Contributions to Permanent Endowments	-	10,085
Total Other Revenues	<u>-</u>	<u>10,085</u>
<b>CHANGE IN NET POSITION</b>	<u>946,024</u>	<u>377,285</u>
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>6,060,394</u>	<u>5,683,109</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 7,006,418</u>	<u>\$ 6,060,394</u>

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

**STATE OF ILLINOIS**  
**IMSA FUND FOR ADVANCEMENT OF EDUCATION**  
(A Component Unit of the State of Illinois)  
**STATEMENT OF CASH FLOWS**  
For the Year Ended June 30, 2014  
(With Comparative Totals for the Year Ended June 30, 2013)

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash Received from Supporters and Grantors	\$ 2,369,852	\$ 1,170,592
Cash Paid to Grantee, Suppliers and Academy Employees	<u>(1,420,681)</u>	<u>(933,729)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>949,171</u>	<u>236,863</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends Received	58,503	58,011
Cash Payment for the Purchase of Investments	<u>(2,958,765)</u>	<u>(2,471,158)</u>
Cash Proceeds from Sale of Investments	<u>2,404,071</u>	<u>1,974,985</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(496,191)</u>	<u>(438,162)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Cash Received for Permanent Endowments	<u>-</u>	<u>10,085</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>10,085</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>452,980</b>	<b>(191,214)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
<b>BEGINNING OF YEAR</b>	<b>774,852</b>	<b>966,066</b>
<b>END OF YEAR</b>	<b><u>\$ 1,227,832</u></b>	<b><u>\$ 774,852</u></b>
<b>RECONCILIATION OF OPERATING INCOME TO</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating Income	\$ 146,177	\$ 106,504
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Changes in Certain Assets and Liabilities:		
Accounts Receivable	65,487	1,893
Contribution Advances	<u>(127,451)</u>	<u>154,867</u>
Prepaid Expenses	<u>(13,177)</u>	<u>10,443</u>
Pledges Receivable	<u>374,191</u>	<u>(35,065)</u>
Accounts Payable	<u>(5,344)</u>	<u>14,494</u>
Unearned Revenue	<u>509,288</u>	<u>(16,273)</u>
Total Adjustments	<u>802,994</u>	<u>130,359</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><b>\$ 949,171</b></u>	<u><b>\$ 236,863</b></u>
<b>NONCASH INVESTING ACTIVITIES</b>		
Unrealized gain on investments	<u><b>\$ 405,279</b></u>	<u><b>\$ 48,948</b></u>

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

**STATE OF ILLINOIS**  
**IMSA FUND FOR ADVANCEMENT OF EDUCATION**  
(A Component Unit of the State of Illinois)  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

**NOTE A – ORGANIZATION**

The IMSA Fund for Advancement of Education (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 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 the 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 or their exclusion of would render the financial statements misleading. 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 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 could, therefore, also be included in the State's comprehensive annual financial report.

The IMSA Fund for Advancement of Education has been notified by the Illinois Office of the Comptroller that it is not material to the financial statements of the State of Illinois and will not be included in the State of Illinois Comprehensive Annual Financial Report.

STATE OF ILLINOIS  
IMSA FUND FOR ADVANCEMENT OF EDUCATION  
(A Component Unit of the State of Illinois)  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2014

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

**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**

The Fund has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Statement No. 66, *Technical Correction – 2012 – an Amendment of GASB Statements No. 10 and No. 62*, and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* during the year ended June 30, 2014. These statements had no impact on the Fund's financial reporting this year.

**4. Cash and Cash Equivalents**

Cash and cash equivalents include debt securities and certificates of deposit 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 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 presented in Note C – Deposits and Investments.

**6. Accounts Receivable**

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

**7. Unearned Revenue**

Unearned revenue includes revenue received for advanced ticket sales for events that relate to a subsequent accounting period and restricted funds received from a donor for which the eligibility requirements have not yet been met.

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

**8. 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*.

**9. Net Position**

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

**Restricted** – this consists of assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources 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. These restricted resources are to be used for educational purposes.

**Unrestricted** – this consists of assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources that do not meet the definition of “restricted”.

**10. Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported financial statement amounts 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 Position is as follows:

Carrying amount of Deposits	\$ 685,050
Carrying amount of Investments	4,958,593
Money market funds	985,455
Petty cash	200
Total	<u><u>\$ 6,629,298</u></u>
Cash and Cash Equivalents	\$ 1,227,832
Investments	5,268,976
Endowment Investments	132,490
Total	<u><u>\$ 6,629,298</u></u>

**1. Deposits**

Deposits with financial institutions had a carrying amount of \$685,050 and bank balances of \$646,468 at June 30, 2014. 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. At June 30, 2014, 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 accounts.

**2. Investments**

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

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

**2. Investments (Continued)**

Investments at June 30, 2014 consisted of the following managed funds:

<u>Investment Types</u>	<u>Investment Maturities (in Years)</u>					
	<u>Fair Value</u>	<u>No Maturity Date</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 +</u>
Corporate Equity	\$4,000,925	\$4,000,925	\$ -	\$ -	\$ -	\$ -
U.S. Treasuries	305,061	-	-	305,061	-	-
U.S. Agency Obligations	385,361	-	30,304	330,741	\$ 24,316	-
Unit Trusts	147,871	-	-	39,117	105,176	3,578
Municipal Debt Securities	119,375	—	—	—	—	119,375
Total	<u>\$4,958,593</u>	<u>\$4,000,925</u>	<u>\$ 30,304</u>	<u>\$ 674,919</u>	<u>\$ 129,492</u>	<u>\$ 122,953</u>

In addition to the above investments, the Fund maintained money market funds (reported as cash equivalents on the statements of net position) in investment accounts that had a carrying amount and fair market value of \$985,455 at June 30, 2014. These funds have maturities of less than 90 days, and had a weighted average years to maturity of approximately 0.14 at June 30, 2014. No rating information is available for these funds.

The Fund's investments at June 30, 2014 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.

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

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 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, 2014 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>Fair Market Value</u></b>
AAA	\$ 39,731
AA+	412,889
AA	52,116
AAf	36,254
Af	68,922
BBB+f	<u>42,695</u>
Total	<u>\$ 652,607</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 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, 2014. The Fund's investment policy includes limitation on investment types that reduces the Fund's exposure to foreign currency risk.

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

Net realized gains (losses) on disposition of investments	\$ 329,376
Net unrealized gains (losses)	<u>405,279</u>
Total net gains (losses) on investments	<u>\$ 734,655</u>

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**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, 2014, pledges receivable were \$621,564 and were classified as either short-term or long-term. Long-term pledges included discounts of \$6,997 as of June 30, 2014. The pledges are reported net of an allowance for doubtful accounts of \$3,159 as of June 30, 2014.

**NOTE E – RELATED PARTY TRANSACTIONS**

Effective August 29, 1996, the 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 the 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. The 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 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 Fund. As long as the Academy receives direct or indirect program support from the Fund, which is greater than the costs the Academy incurs on behalf of the Fund, no reimbursement shall occur. If in any fiscal year those costs are greater than the program support provided to the Academy, the Fund will reimburse the Academy for the excess of the costs over the program support provided. For fiscal year 2014, total program support provided to the Academy by the Fund was \$1,124,317. The total costs incurred by the Academy for the Fund were approximately \$284,692.

At June 30, 2014, accounts receivable due from the Academy was \$37,989.

At June 30, 2014, contribution advances of \$219,379 had been paid to the Academy but were deferred to the following year.

**Other Related Parties**

The Fund recognized contribution revenue from members of the Fund's Board of Directors and the Academy's Board of Trustees and those members' affiliated corporations and foundations in the amount of \$46,077 during the year ended June 30, 2014.

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**NOTE F – CONTINGENCIES – GRANTS**

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

During fiscal year 2014, the Fund was awarded a \$1,000,000 grant for the creation of a 6,400 square foot laboratory space to serve students in their pursuit of innovation, entrepreneurship, and talent development programming, utilizing a dedicated space equipped with state-of-the-art technology. The Fund received the first of two \$500,000 installments during fiscal year 2014. The grant agreement requires the Fund to raise \$400,000 of matching funds by December 31, 2016 as a condition to receipt of the second \$500,000 installment. If the Fund does not meet the conditions of the grant, the second installment will not be released and the Fund will be required to return all of the first installment that has not been expended for the purpose of the grant. As of June 30, 2014, the Fund had \$500,000 of grant funds on hand that had yet to be expended for the purpose of the grant.

**NOTE G – INCOME TAXES**

IMSA Fund for Advancement of Education is a non-profit organization, which has been granted a tax-exempt status as a public charity under Section 501(c) (3) of the Internal Revenue Code. The 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 year ended June 30, 2014.

**NOTE H – 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. During fiscal year 2013 and 2014, the Fund's Board established three board-designated endowments. These endowment's principal objectives are Professional Field Services (PFS), teacher and Total Applied Learning for Entrepreneurs (TALENT) programs. The balance of the quasi- and board-designated endowment fund as of June 30, 2014 was \$4,040,227. The principal of these endowments will not be expended, and is reported on the Statements of Net Position as "Unrestricted Net Position".

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**NOTE H – ENDOWMENTS (Continued)**

As permitted by State law, a distribution from investment earnings will be made available for purposes designated by the Fund's Board of Directors from the endowment funds. The Fund's Board of Directors authorized a payment of up to 5% of the average of the preceding three year balance. The amount approved for expenditure as of December 31, 2013 was \$55,400. During the fiscal year 2014, \$37,679 of the aforementioned authorized expenditure was made along with investment management fees. Any portion of the annual distributable funds not distributed in any given year will be retained in the Quasi-Endowment Fund in a pool of funds spendable in future years. Net appreciation of Quasi-Endowments was \$938,971 as of June 30, 2014.

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 Position as "Restricted Net Position, Nonexpendable". Net appreciation of donor restricted endowments was \$57,295 as of June 30, 2014.

All of the endowment and quasi-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. During fiscal year 2014, the IMSA Fund modified its intention to retain accumulated earnings generated by the quasi-endowment fund until the principal and accumulated earnings reach \$5,000,000 at fiscal year-end, unless earlier earnings distributions are otherwise expressly requested by the originator of a specific endowed fund (or the Executive Committee of the Fund as allowed by a donor). No earnings will be distributed until 12 months after an endowed fund reaches \$20,000.



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**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, in accordance with the 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, the financial statements of the business-type activities of the IMSA Fund for Advancement of Education, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise IMSA Fund for Advancement of Education's basic financial statements, and have issued our report thereon dated November 19, 2014.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the IMSA Fund for Advancement of Education's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the IMSA Fund for Advancement of Education's internal control. Accordingly, we do not express an opinion on the effectiveness of the IMSA Fund for Advancement of Education's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the IMSA Fund for Advancement of Education's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the IMSA Fund for Advancement of Education's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IMSA Fund for Advancement of Education's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Borschnak, Bell & Co."

November 19, 2014