

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

Financial Audit

For the Years Ended June 30, 2006 and 2005

IMS A FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)

For the Years Ended June 30, 2006 and 2005

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

For the Years Ended June 30, 2006 and 2005

AGENCY OFFICIALS

Vice President for Advancement	Ms. Catherine C. Veal
Director of IMSA Fund Business Services	Ms. Lois Harris

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Director	Ms. Bonnie Stoufer
Director	Mr. Jarvis Yeh

Agency Offices are located at:

1500 W. Sullivan Road
Aurora, Illinois 60506 -1000

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
For the Years Ended June 30, 2006 and 2005

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the IMSA Fund for Advancement of Education as of and for the year ended June 30, 2006 was performed by the staff of the Office of the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the agency's basic financial statements as of and for the year ended June 30, 2006.

The financial statements as of and for the year ended June 30, 2005 were audited by other auditors who expressed an unqualified opinion on the basic financial statements in their report dated November 8, 2005.

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887



CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. • SUITE S-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

And

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

We have audited the accompanying financial statements of the governmental activities and the fund information 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, 2006, which collectively comprise the IMSA Fund for Advancement of Education's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the IMSA Fund for Advancement of Education's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements as of and for the year ended June 30, 2005, were audited by other auditors who expressed unqualified opinions on the basic financial statements in their report dated November 8, 2005.

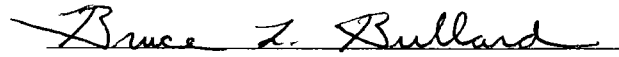
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the IMSA Fund for Advancement of Education, as of June 30, 2006, and the respective changes in net assets 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 December 28, 2006, on our consideration of the IMSA Fund for Advancement of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The *Management's Discussion and Analysis* on pages 7 through 10 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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


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

December 28, 2006

SPRINGFIELD OFFICE:
ILES PARK PLAZA
740 EAST ASH • 62703-3154
PHONE: 217/782-6046
FAX: 217/785-8222 • TTY: 888/261-2887



CHICAGO OFFICE:
MICHAEL A. BILANDIC BLDG. • SUITE S-900
160 NORTH LASALLE • 60601-3103
PHONE: 312/814-4000
FAX: 312/814-4006

OFFICE OF THE AUDITOR GENERAL
WILLIAM G. HOLLAND

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

Honorable William G. Holland
Auditor General
State of Illinois

And

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

We have audited the financial statements of the governmental activities and the fund information 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, 2006, which collectively comprise the IMSA Fund for Advancement of Education's basic financial statements, and have issued our report thereon dated December 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the IMSA Fund for Advancement of Education's internal control over financial reporting 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the IMSA Fund for Advancement of Education's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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



Bruce L. Bullard

Director of Financial and Compliance Audits

December 28, 2006

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

The purpose of this analysis is to provide an objective and easy to read analysis of the IMSA Fund for Advancement of Education's (Fund) Financial Statements based on currently known facts, decisions, and/or conditions. These financial statements are the responsibility of management and should be read in conjunction with the footnotes as a complete financial report.

Accounting Changes

The amounts reflected under the column heading "IMSA Fund" are on the modified accrual basis. Full accrual, as required by GASB Statement No. 34 is presented under the column heading "Statement of Net Assets/Statement of Activities". For the Fund, the difference between the two presentations concerns the recording of pledges receivable and prepaid expenses.

Statement of Net Assets and Governmental Fund Balance Sheet

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

Pledges Receivable

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

Deferred Contribution Revenue

This amount reflects contributions received by the Fund in the current year containing time restrictions for their use in subsequent years; therefore they have been reflected in the accompanying balance sheet as deferred revenue.

Net Assets

Net assets are divided into two major categories. Unrestricted net assets include amounts not subject to donor-imposed stipulations and include all of the activities of the Fund, except for those amounts that are restricted by external donors. Restricted net assets include amounts that are subject to donor-imposed stipulations. These stipulations limit the use of the resources for specific purposes.

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Years Ended June 30, 2006 and 2005

Condensed Statement of Net Assets
June 30, 2006, 2005, and 2004

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
<u>Assets:</u>			
Cash and cash equivalents	\$ 1,173,023	\$ 902,598	\$ 1,730,686
Investments	1,813,252	1,654,781	555,026
Accounts receivable	63,864	113,300	169,754
Pledges receivable	91,054	248,811	337,354
Prepaid expenses	<u>1,239</u>	<u>87</u>	<u>2,203</u>
Total assets	<u>\$ 3,142,432</u>	<u>\$ 2,919,577</u>	<u>\$ 2,795,023</u>
<u>Liabilities:</u>			
Accounts payable	\$ 17,802	\$ 53,459	\$ 5,122
Deferred contribution revenue	<u>25,000</u>	<u>35,000</u>	<u>42,373</u>
Total liabilities	<u>\$ 42,802</u>	<u>\$ 88,459</u>	<u>\$ 47,495</u>
<u>Net Assets:</u>			
Unrestricted net assets	\$ 1,398,819	\$ 950,809	\$ 906,962
Restricted net assets	<u>1,700,811</u>	<u>1,880,309</u>	<u>1,840,566</u>
Total net assets	<u>\$ 3,099,630</u>	<u>\$ 2,831,118</u>	<u>\$ 2,747,528</u>

Fiscal year ended June 30, 2006 ended with an increase in net assets of \$268,512. This increase results from a large anonymous gift as well as execution of a strategy to increase participation in the annual campaign. Expenditures also decreased.

Fiscal year ended June 30, 2005 ended with an increase in net assets of \$83,590. This increase results from a strategy to increase participation through expansion of the annual giving campaign as well as an increase in investment income. This was also affected by a decrease in expenditures.

Statement of Activities of Governmental Revenues, Expenditures, and Changes in Fund Balances

The purpose of the Statement of Activities of Governmental Revenues, Expenditures, and Changes in Fund Balances is to present the revenues received by the Fund, both general and program, and expenses paid by the Fund.

Program revenues primarily consist of contributions to the Fund and registration fees. General revenues consist of unrestricted contributions, investment income and other receipts. Expenses consist of expenses paid to support and carry out the mission of the Fund.

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Years Ended June 30, 2006 and 2005

Condensed Statement of Activities
June 30, 2006, 2005, and 2004

	<u>June 30, 2006</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Total expenditures/expenses	\$ 782,974	\$ 897,737	\$ 1,528,724
Program revenues			
Contributions	408,271	622,435	676,625
Investment income (loss)	320	(254)	(416)
Registration fees	<u>7,405</u>	<u>16,974</u>	<u>23,067</u>
Total program revenues	<u>415,996</u>	<u>639,155</u>	<u>699,276</u>
Net program revenues	<u>(366,978)</u>	<u>(258,582)</u>	<u>(829,448)</u>
General revenues			
Contributions	524,661	255,573	166,828
Investment income	<u>110,829</u>	<u>86,599</u>	<u>49,462</u>
Total general revenues	<u>635,490</u>	<u>342,172</u>	<u>216,290</u>
Change in net assets	268,512	83,590	(613,158)
Net assets – beginning of year	<u>2,831,118</u>	<u>2,747,528</u>	<u>3,360,686</u>
Net assets – end of year	<u>\$3,099,630</u>	<u>\$2,831,118</u>	<u>\$2,747,528</u>

Contributions

The total contributions received by the Fund increased 6.26% from fiscal year 2005 to fiscal year 2006 due to the results of an annual giving campaign and a large anonymous donation.

The total contributions received by the Fund during fiscal year 2005 increased 4.10% from fiscal year 2004. The increase was due to the Fund's strategy to develop an annual campaign.

Investment Income

Investment income (net of unrealized gains and losses) increased by 317% from fiscal year 2005 to fiscal year 2006, due to increase in investments and cash and improved equity markets. Unrealized losses on investments were \$51,927 for fiscal year 2006.

Investment income (net of unrealized gains and losses) increased by 13.1% from fiscal year 2004 to fiscal year 2005, due an increase in investments balances. Unrealized gains on investments were \$47,269 for fiscal year 2005.

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2006 and 2005

Expenses

Management, general and fundraising expenses decreased from \$120,723 in fiscal year 2005 to \$84,077 in fiscal year 2006. This \$36,646 decrease (30.36%) is the result of reduced operating expenses and salary contributions.

Management, general and fundraising expenses increased from \$65,684 in fiscal year 2004 to \$120,723 in fiscal year 2005. This \$55,039 increase (83.79%) is the result of increased staffing in management and operations and increased investment expense.

The Fund disbursed \$698,897, \$777,014, and \$1,463,040 in fiscal years 2006, 2005, and 2004 in direct support to the Academy. The decrease in funding is due to a return to normal funding levels after increases in 2003 and 2004 to maintain programs.

Economic Outlook

The Fund is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those variables having a global effect on virtually all types of business operations.

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
 For the Year Ended June 30, 2006

	<u>IMSA Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets:			
Cash and cash equivalents	\$ 1,173,023		\$ 1,173,023
Investments	1,813,252		1,813,252
Accounts receivable	35,496		35,496
Contribution advances	0	28,368	28,368
Prepaid expenses	0	1,239	1,239
Pledges receivable, short term	61,054		61,054
Pledges receivable, long term	30,000		30,000
Total assets	<u>\$ 3,112,825</u>	<u>\$ 29,607</u>	<u>\$ 3,142,432</u>
Liabilities:			
Accounts payable	\$ 548		\$ 548
Due to IMSA	17,254		17,254
Deferred contribution revenue	116,054	(91,054)	25,000
Total liabilities	<u>\$ 133,856</u>	<u>\$ (91,054)</u>	<u>\$ 42,802</u>
Fund Balances/Net assets			
Unrestricted net assets	\$ 1,397,580	\$ 1,239	\$ 1,398,819
Restricted net assets	1,581,389	119,422	1,700,811
Total fund balances/net assets	<u>\$ 2,978,969</u>	<u>\$ 120,661</u>	<u>\$ 3,099,630</u>
Total liabilities and fund balances	<u>\$ 3,112,825</u>		

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO STATEMENT OF NET ASSETS**
For the Year Ended June 30, 2006

Total fund balances - governmental fund \$ 2,978,969

Amounts reported from governmental activities in the
Statement of Net Assets are different because:

Prepaid expenses and contribution advances for governmental
activities are current uses of financial resources for funds 29,607

Pledges, voluntary nonexchange transactions, are recognized
when all eligibility requirements have been met regardless
of the availability of the resources. 91,054

Net assets of governmental activities \$ 3,099,630

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
 For the Year Ended June 30, 2005

	<u>IMSA Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
Assets:			
Cash and cash equivalents	\$ 902,598		\$ 902,598
Investments	1,654,781		1,654,781
Accounts receivable	69,628		69,628
Contribution advances	0	43,672	43,672
Prepaid expenses	0	87	87
Pledges receivable, short term	248,311		248,311
Pledges receivable, long term	500		500
Total assets	<u>\$ 2,875,818</u>	<u>\$ 43,759</u>	<u>\$ 2,919,577</u>
Liabilities:			
Accounts payable	\$ 8,360		\$ 8,360
Due to IMSA	45,099		45,099
Deferred contribution revenue	283,811	(248,811)	35,000
Total liabilities	<u>\$ 337,270</u>	<u>\$ (248,811)</u>	<u>\$ 88,459</u>
Fund Balances/Net assets			
Unrestricted net assets	\$ 926,522	\$ 24,287	\$ 950,809
Restricted net assets	1,612,026	268,283	1,880,309
Total fund balances/net assets	<u>\$ 2,538,548</u>	<u>\$ 292,570</u>	<u>\$ 2,831,118</u>
Total liabilities and fund balances	<u>\$ 2,875,818</u>		

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
**RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO STATEMENT OF NET ASSETS**
For the Year Ended June 30, 2005

Total fund balances - governmental fund \$ 2,538,548

Amounts reported from governmental activities in the
Statement of Net Assets are different because:

Prepaid expenses and contribution advances for governmental
activities are current uses of financial resources for funds 43,759

Pledges, voluntary nonexchange transactions, are recognized
when all eligibility requirements have been met regardless
of the availability of the resources. 248,811

Net assets of governmental activities \$ 2,831,118

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
STATEMENT OF ACTIVITIES OF GOVERNMENTAL REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
 For the Year Ended June 30, 2006

	<u>IMSA Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Education services	\$ 684,745	\$ 14,152	\$ 698,897
Management and general	67,329		67,329
Fundraising	16,748		16,748
Total expenditures/expenses	<u>768,822</u>	<u>14,152</u>	<u>782,974</u>
Program revenues:			
Contributions	566,028	(157,757)	408,271
Investment Income	320		320
Net gains (losses) on investments	0		0
Registration fees	7,405		7,405
Total program revenues	<u>573,753</u>	<u>(157,757)</u>	<u>415,996</u>
Net program revenues	<u>(195,069)</u>	<u>(171,909)</u>	<u>(366,978)</u>
General revenues:			
Contributions	524,661		524,661
Investment Income	90,300		90,300
Net gains (losses) on investments	20,529		20,529
Total General revenues	<u>635,490</u>	<u>0</u>	<u>635,490</u>
Change in fund balance/net assets	440,421	\$ (171,909)	268,512
Fund Balance/net assets - beginning of the year	<u>2,538,548</u>		<u>2,831,118</u>
Fund Balance/net assets - end of the year	<u>\$ 2,978,969</u>		<u>\$ 3,099,630</u>

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO
STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2006

Net changes in fund balances	\$ 440,421
Revenues and expenses in the Statement of Net Assets are not reported as revenues and expenses until they have occurred	(14,152)
Revenue for pledges, voluntary nonexchange transactions, are recognized when all the eligibility requirements have been met regardless of the availability of resources for the Statement of Activities	<u>(157,757)</u>
Change in net assets	<u><u>\$ 268,512</u></u>

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
 (A Component Unit of the State of Illinois)
STATEMENT OF ACTIVITIES OF GOVERNMENTAL REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
 For the Year Ended June 30, 2005

	<u>IMSA Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Expenditures/expenses:			
Education services	\$ 726,253	\$ 50,761	\$ 777,014
Management and general	91,612		91,612
Fundraising	29,111		29,111
Total expenditures/expenses	<u>846,976</u>	<u>50,761</u>	<u>897,737</u>
Program revenues:			
Contributions	710,978	(88,543)	622,435
Net gains (losses) on investments	(254)		(254)
Registration fees	16,974		16,974
Total program revenues	<u>727,698</u>	<u>(88,543)</u>	<u>639,155</u>
Net program revenues	<u>(119,278)</u>	<u>(139,304)</u>	<u>(258,582)</u>
General revenues:			
Contributions	255,573		255,573
Investment Income	47,095		47,095
Net gains (losses) on investments	39,504		39,504
Total general revenues	<u>342,172</u>	<u>0</u>	<u>342,172</u>
Change in fund balance/net assets	222,894	<u>\$ (139,304)</u>	83,590
Fund Balance/net assets - beginning of the year	<u>2,315,654</u>		<u>2,747,528</u>
Fund Balance/net assets - end of the year	<u>\$ 2,538,548</u>		<u>\$ 2,831,118</u>

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUND TO
STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2005

Net changes in fund balances	\$ 222,894
Revenues and expenses in the Statement of Net Assets are not reported as revenues and expenses until they have occurred	(50,761)
Revenue for pledges, voluntary nonexchange transactions, are recognized when all the eligibility requirements have been met regardless of the availability of resources for the Statement of Activities	<u>(88,543)</u>
Change in net assets	<u><u>\$ 83,590</u></u>

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

IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
NOTES TO FINANCIAL STATEMENTS
For the Years Ended June 30, 2006 and 2005

NOTE A – ORGANIZATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Financial Reporting Entity

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

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

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

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. Financial Reporting Entity – (Continued)

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

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

2. Basis of Presentation

The financial activities of IMSA Fund are reported under the general government function in the Illinois Comprehensive Annual Financial Report published by the State Comptroller. For its reporting purposes, IMSA Fund has combined the fund and government-wide financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. A brief description of IMSA Fund's government-wide and 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 IMSA Fund. Eliminations have been made to minimize the double-counting of internal activities of IMSA Fund. The financial activities of IMSA Fund consist of contributions to support its programs for the Academy.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. 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 are presented as general revenues.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: The fund financial statements provide information about IMSA Fund's funds. IMSA Fund only has one fund. This fund is non-appropriated and locally held.

3. Basis of Accounting

The government-wide fund 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 IMSA Fund gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. Revenue from grants, contribution pledges, 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, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded only when payment is due. General 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 funding sources.

Significant revenue sources including registration fees, contributions, investment income and miscellaneous revenues, 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.

4. Cash and Cash Equivalents

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

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Investments

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

6. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for specific purposes.

7. Net Assets

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

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

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

8. Use of Estimates

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

NOTE C – DEPOSITS AND INVESTMENTS

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. IMSA Fund independently manages its cash and cash equivalents maintained outside the State Treasury.

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NOTE C – DEPOSITS AND INVESTMENTS (Continued)

A. Deposits

Cash on deposit and cash on hand for locally held funds had a carrying amount of \$986,610 and \$721,000 and a bank balance of \$1,022,847 and \$767,556 at June 30, 2006, and 2005, respectively.

Additional money market funds (cash equivalents) for locally held funds held in an investment account had a carrying amount and fair market value of \$186,413 and \$181,598 at June 30, 2006 and 2005, respectively. For purposes of this disclosure, money market funds held by investment managers are considered to be deposits, but these funds are not subject to custodial credit risk.

Cash on hand at June 30, 2006 and 2005 totaled \$200 and \$200, respectively

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

B. Investments

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

Investments at June 30, 2006 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>No Maturity Date</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Corporate Debt Securities	\$ 1,096,877	\$ 0	\$ 123,886	\$ 561,247	\$ 411,744
Corporate Equity Securities	592,502	592,502	N/A	N/A	N/A
U.S. Treasuries	123,873	0	50,493	0	73,379
Total	<u>\$ 1,813,252</u>	<u>\$ 592,502</u>	<u>\$ 174,379</u>	<u>\$ 561,247</u>	<u>\$ 485,123</u>

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NOTE C – DEPOSITS AND INVESTMENTS (Continued)

Investments at June 30, 2005 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>No Maturity Date</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Corporate Debt Securities	\$ 957,603	\$ 0	\$ 0	\$ 422,787	\$ 534,816
Corporate Equity Securities	569,819	569,819	N/A	N/A	N/A
U.S. Treasuries	<u>127,359</u>	<u>0</u>	<u>0</u>	<u>49,576</u>	<u>77,783</u>
Total	<u>\$ 1,654,781</u>	<u>\$ 569,819</u>	<u>\$ 0</u>	<u>\$ 472,363</u>	<u>\$ 612,599</u>

The Fund's investments at June 30, 2006 and 2005 include uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name.

	<u>2006</u>	<u>2005</u>
Net realized gains (losses) on disposition of investments	\$ 72,456	\$ (8,019)
Net unrealized gains (losses)	<u>(51,927)</u>	<u>47,269</u>
Total net gains (losses) on investments	<u>\$ 20,529</u>	<u>\$ 39,250</u>

IMSA Fund's investment policy precludes the Fund from investing in bonds with a credit rating of less than A by the Standard & Poor's. As of June 30, 2006, the Fund's investments in corporate debt securities were rated A to AAA.

<u>Standards & Poor's Rating</u>	<u>2006 Fair Market Value</u>	<u>2005 Fair Market Value</u>
AAA	\$ 48,485	\$ 49,189
AA	216,791	151,758
A+	414,148	125,995
A	<u>417,453</u>	<u>630,661</u>
Total	<u>\$ 1,096,877</u>	<u>\$ 957,603</u>

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The IMSA Fund has maintained its funds in

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NOTE C – DEPOSITS AND INVESTMENTS (Continued)

highly liquid investments, but has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

NOTE D – RECEIVABLES

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

Outstanding pledges are reflected in the accompanying financial statements for those promises/pledges to give for which all time and other eligibility requirements have been met as provided for in GASB Statement No. 33. At June 30, 2006 and 2005, pledges receivable were \$91,054 and \$248,811, respectively. Of this amount \$61,054 will be received during the year ended June 30, 2007 and \$30,000 will be received during the year ending June 30, 2008. Pledges are shown net of estimated uncollectible do not include conditional pledges totaling \$160,000 and \$120,000, at June 30, 2006 and 2005, respectively.

NOTE E – DEFERRED CONTRIBUTION REVENUE

In accordance with GASB Statement No. 33, contributions received in the current year containing time restrictions for their use in subsequent years have been reflected in the accompanying financial statements as deferred revenue. At June 30, 2006 and 2005, deferred contribution revenues were \$25,000 and \$35,000, respectively. Of this amount, \$25,000 is to be used during the year ended June 30, 2007.

NOTE F – RELATED PARTY TRANSACTIONS

Effective July 1, 1995, IMSA Fund entered into an agreement with the Illinois Mathematics and Science Academy (Academy), which specifies the relationship between the two organizations. This agreement states that IMSA Fund is a separate corporate entity established primarily for the purpose of benefiting, performing the functions of, and carrying out certain charitable, educational, literary and scientific purposes of the Academy, and to assist the Academy in achieving and furthering its educational, research, and service goals. IMSA Fund has agreed to provide financial support to the Academy (both directly and indirectly) and in exchange, the Academy has agreed to provide office space, equipment and personnel to enable the IMSA Fund to accomplish its purposes.

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NOTE F – RELATED PARTY TRANSACTIONS (Continued)

Both organizations acknowledge that State resources should not be used to provide for fundraising activities, which do not result in a value to the Academy of the same or greater value than what the Academy receives directly from the IMSA Fund. As long as the Academy receives direct or indirect program support from the IMSA Fund, which is greater than the fundraising costs the Academy incurs on behalf of IMSA Fund, no reimbursement shall occur. If in any fiscal year those fundraising costs are greater than the program support provided to the Academy, IMSA Fund will reimburse the Academy for the excess of the fundraising costs over program support provided. For fiscal year 2006 and 2005, total program support provided to the Academy by IMSA Fund was \$698,897 and \$777,014, respectively. The total fundraising cost incurred by the Academy for the IMSA Fund was approximately \$61,091 and \$81,411, respectively.

The Academy's financial statements exclude the financial activity reported in IMSA Fund's financial statements except for amounts given to the Academy to support personnel costs which are processed through the State's payroll system, amounts donated to the Academy for Academy-administered programs, and equipment donations and purchases reflected in the Academy's capital asset balances. The amounts of equipment donations received and purchases made by IMSA Fund for the Academy were \$3,784 and \$25,871, respectively.

At June 30, 2006 and 2005, accounts payable due to the Academy included \$17,254 and \$45,099, respectively. At June 30, 2006 and 2005, accounts receivable due from the Academy included \$35,496 and \$69,628, respectively.

At June 30, 2006 and 2005, contribution advances included \$28,368 and \$43,672 due from the Academy, respectively.

Other Related Parties

IMSA Fund recognized contribution revenue from members of the IMSA Fund Board of Trustees and the Academy Board of Trustees and those members' affiliated corporations and foundations in the amount of \$137,880 and \$113,510, during the years ended June 30, 2006 and 2005, respectively. Unrecorded in-kind contributions were \$0 and \$0 in both years.

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NOTE G – CONTINGENCIES – GRANTS

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

NOTE I – INCOME TAXES

IMSA Fund for Advancement of Education is a non-profit origination, which has been granted a tax-exempt status as a public charity under Section 501(c)(3) of the Internal Revenue Code. IMSA Fund is required to pay federal and state income taxes only on its net unrelated business income. No provision for income taxes was required for the years ended June 30, 2006 and 2005.