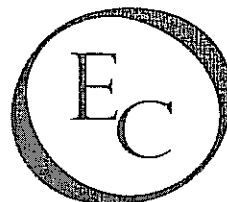


**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD**

**FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007**

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



**E.C. ORTIZ & CO., LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 2007**

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**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD**

**AGENCY OFFICIALS**

|  |                |
|--|----------------|
| Executive Director   | Janet Grimes   |
| Deputy Director of Construction                                | James Riemer   |
| Deputy Director of Operations                                  | Darryl Harris  |
| Deputy Director of Professional Services (07/01/06 to present) | Lisa Mattingly |
| Administrator of the Office of Fiscal Management               | Gevan Behnke   |
| Legal Counsel  | Fred Hahn      |

Agency Office is located at:

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

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
FINANCIAL STATEMENT REPORT**

**SUMMARY**

The audit of the accompanying basic financial statements of the Capital Development Board was performed by E. C. Ortiz & Co., LLP.

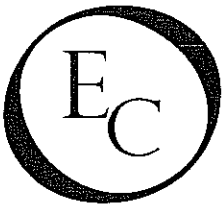
Based on their audit, the auditors expressed an unqualified opinion on the Capital Development Board's basic financial statements.

**SUMMARY OF FINDINGS**

The auditors identified matters involving the Agency's internal control over financial reporting that they consider to be significant deficiencies. The significant deficiencies are described in the accompanying Schedule of Findings on pages 34 through 37 of this report, as finding 07-1, Inadequate Internal Control for Uninsured and Uncollateralized Deposits, and finding 07-2, Inadequate Review of Retainage Payables and Related Contractor Accounts Payable Balances.

**EXIT CONFERENCE**

The findings and recommendations appearing in this report were discussed with Agency personnel at an exit conference on December 10, 2007 held at 300 William G. Stratton Building, 401 South Spring Street, Springfield, Illinois 62706. Representing the Office of the Auditor General was Lisa Warden. Representing the Capital Development Board were Janet Grimes (through telephone), Gus Behnke, and Daryl Harris. Representing E.C. Ortiz & Co., LLP were Edilberto C. Ortiz, Stella B. Santos and Leilani N. Rodrigo. Responses to the recommendations were provided by Gus Behnke in a letter dated December 19, 2007.



E.C. ORTIZ & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois

and

Board Members  
Capital Development Board

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, 2007, 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, the 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, 2007, and the changes in its 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, the major fund, and the aggregate remaining fund information of the State of Illinois Capital Development Board, as of June 30,

2007, 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 December 19, 2007 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 combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are 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, agency management, and Board members and audit committee members of the Capital Development Board, and is not intended to be and should not be used by anyone other than these specified parties.

*E. C. Gertig & Co. LLP*

Chicago, Illinois  
December 19, 2007

STATE OF ILLINOIS  
 CAPITAL DEVELOPMENT BOARD  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2007  
 (Expressed in Thousands)

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS</b>                                   |                                    |
| Unexpended appropriations                       | \$ 32,557                          |
| Cash equity with State Treasurer                | 18,719                             |
| Cash and cash equivalents                       | 10,586                             |
| Intergovernmental receivables                   | 1,115                              |
| Due from other State funds                      | 2,949                              |
| Other receivables                               | 2,072                              |
| Capital assets not being depreciated, net       | 61,522                             |
| Capital assets being depreciated                | 168                                |
| <b>TOTAL ASSETS</b>                             | <u>129,688</u>                     |
| <b>LIABILITIES</b>                              |                                    |
| Accounts payable and accrued liabilities        | 46,052                             |
| Intergovernmental payables                      | 701                                |
| Due to other State funds                        | 88                                 |
| Deferred revenues                               | 13,918                             |
| Compensated absences, short-term                | 95                                 |
| Compensated absences, long-term                 | 854                                |
| <b>TOTAL LIABILITIES</b>                        | <u>61,708</u>                      |
| <b>NET ASSETS</b>                               |                                    |
| Invested in capital assets, net of related debt | 61,690                             |
| Unrestricted                                    | 6,290                              |
| <b>TOTAL NET ASSETS</b>                         | <u>\$ 67,980</u>                   |

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

STATE OF ILLINOIS  
 CAPITAL DEVELOPMENT BOARD  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2007  
 (Expressed in Thousands)

|   | Program Revenues           |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Assets |              |
|---|----------------------------|--|--|--------------|
|   | Charges<br>for<br>Services | Capital<br>Grants and<br>Contributions |  |              |
| Expenses  |                            |  |  |              |
| <b>FUNCTIONS/PROGRAMS</b>                             |                            |  |  |              |
| <b>GOVERNMENTAL ACTIVITIES</b>                        |                            |  |  |              |
| Education   | \$ 188,279                 | \$ 23,795                              | \$ 21,688  | \$ (142,796) |
| General government                                    | 46,018                     | -                                      | -  | (46,018)     |
| Total governmental activities                         | 234,297                    | 23,795                                 | 21,688   | (188,814)    |
| <b>GENERAL REVENUES</b>                               |                            |  |  |              |
| Other revenues  |                            |  |  | 2            |
| Appropriations from State resources                   |                            |  |  | 1,806,287    |
| Reappropriation to future year(s)                     |                            |  |  | (1,287,667)  |
| Lapsed appropriations                                 |                            |  |  | (201,123)    |
| Net change in liabilities for reappropriated accounts |                            |  |  | (7,799)      |
| <b>TRANSFERS</b>                                      |                            |  |  |              |
| Receipts collected and transmitted to State Treasury  |                            |  |  | (132)        |
| Capital transfers to other State agencies             |                            |  |  | (103,581)    |
| Operating transfers to other State agencies           |                            |  |  | (358)        |
| Total general revenues and transfers                  |                            |  |  | 205,629      |
| <b>CHANGE IN NET ASSETS</b>                           |                            |  |  | 16,815       |
| <b>NET ASSETS, JULY 1, 2006</b>                       |                            |  |  | 51,165       |
| <b>NET ASSETS, JUNE 30, 2007</b>                      |                            |  |  | \$ 67,980    |

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



STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2007  
(Expressed in Thousands)

|  | General<br>Revenue<br>Fund | Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|--|----------------------------|-------------------|--------------------------------|
| <b>ASSETS</b>                              |                            |                   |                                |
| Unexpended appropriations                  | \$ -                       | \$ 32,557         | \$ 32,557                      |
| Cash equity with State Treasurer           | -                          | 18,719            | 18,719                         |
| Cash and cash equivalents                  | -                          | 10,586            | 10,586                         |
| Intergovernmental receivables              | -                          | 1,115             | 1,115                          |
| Due from other State funds                 | -                          | 2,949             | 2,949                          |
| Other receivables                          | -                          | 2,072             | 2,072                          |
| <b>TOTAL ASSETS</b>                        | <b>-</b>                   | <b>67,998</b>     | <b>67,998</b>                  |
| <b>LIABILITIES AND FUND BALANCES</b>       |                            |                   |                                |
| <b>LIABILITIES</b>                         |                            |                   |                                |
| Accounts payable and accrued liabilities   | -                          | 46,052            | 46,052                         |
| Intergovernmental payables                 | -                          | 701               | 701                            |
| Due to other State funds                   | -                          | 88                | 88                             |
| Deferred revenues                          | -                          | 13,918            | 13,918                         |
| <b>Total liabilities</b>                   | <b>-</b>                   | <b>60,759</b>     | <b>60,759</b>                  |
| <b>FUND BALANCES</b>                       |                            |                   |                                |
| Reserved for encumbrances                  | -                          | 216               | 216                            |
| Unreserved, unrestricted:                  |                            |                   |                                |
| Special revenue fund                       | -                          | 3,708             | 3,708                          |
| Capital project funds                      | -                          | 3,315             | 3,315                          |
| <b>Total fund balances</b>                 | <b>-</b>                   | <b>7,239</b>      | <b>7,239</b>                   |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ -</b>                | <b>\$ 67,998</b>  | <b>\$ 67,998</b>               |

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

**STATE OF ILLINOIS**  
**CAPITAL DEVELOPMENT BOARD**  
**GOVERNMENTAL FUNDS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**  
**(Expressed in Thousands)**

|  |    |       |
|--|----|-------|
| Total fund balances - governmental funds | \$ | 7,239 |
|--|----|-------|

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. | 61,690 |
|--|--------|

|   |       |
|---|-------|
| 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 compensated absences | (949) |
|---|-------|

|                                       |    |               |
|---------------------------------------|----|---------------|
| Net assets of governmental activities | \$ | <u>67,980</u> |
|---------------------------------------|----|---------------|

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

STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)

|   | General<br>Revenue<br>Fund | Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------------|-------------------|--------------------------------|
| <b>REVENUES</b>   |                            |                   |                                |
| Federal capital grants  | \$ -                       | \$ 21,066         | \$ 21,066                      |
| Licenses and fees   | -                          | 4,835             | 4,835                          |
| Other charges for services  | -                          | 18,960            | 18,960                         |
| Other capital grants  | -                          | 622               | 622                            |
| Miscellaneous   | 1                          | 1                 | 2                              |
|   | <hr/>                      | <hr/>             | <hr/>                          |
| Total revenues  | 1                          | 45,484            | 45,485                         |
|   | <hr/> <hr/>                | <hr/> <hr/>       | <hr/> <hr/>                    |
| <b>EXPENDITURES</b>   |                            |                   |                                |
| Education   | -                          | 188,279           | 188,279                        |
| General government  | -                          | 45,915            | 45,915                         |
| Capital outlays   | -                          | 118,259           | 118,259                        |
|   | <hr/>                      | <hr/>             | <hr/>                          |
| Total expenditures  | -                          | 352,453           | 352,453                        |
|   | <hr/> <hr/>                | <hr/> <hr/>       | <hr/> <hr/>                    |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b>                          | 1                          | (306,969)         | (306,968)                      |
| <b>OTHER SOURCES (USES)</b>   |                            |                   |                                |
| Appropriations from State resources   | 150,000                    | 1,656,287         | 1,806,287                      |
| Reappropriations to future year(s)  | -                          | (1,287,667)       | (1,287,667)                    |
| Lapsed appropriations   | (150,000)                  | (51,123)          | (201,123)                      |
| Receipts collected and transmitted to State Treasury                                  | (81)                       | (51)              | (132)                          |
| Net change in liabilities for reappropriated accounts                                 | -                          | (7,799)           | (7,799)                        |
| Operating transfers out   | -                          | (358)             | (358)                          |
|   | <hr/>                      | <hr/>             | <hr/>                          |
| Total other sources (uses)  | (81)                       | 309,289           | 309,208                        |
|   | <hr/> <hr/>                | <hr/> <hr/>       | <hr/> <hr/>                    |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER<br/>EXPENDITURES AND OTHER SOURCES (USES)</b> | (80)                       | 2,320             | 2,240                          |
| <b>FUND BALANCES, JULY 1, 2006</b>  | 80                         | 4,919             | 4,999                          |
|   | <hr/>                      | <hr/>             | <hr/>                          |
| <b>FUND BALANCES, JUNE 30, 2007</b>   | \$ -                       | \$ 7,239          | \$ 7,239                       |
|   | <hr/> <hr/>                | <hr/> <hr/>       | <hr/> <hr/>                    |

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

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

|   |             |           |                      |
|---|-------------|-----------|----------------------|
| Net change in fund balances   |             | \$        | 2,240                |
| Amounts reported for governmental activities in the Statement of Activities are different because:  |             |           |                      |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.                    |             |           |                      |
| Capital outlay  | 118,259     |           |                      |
| Depreciation expense  | <u>(28)</u> |           | 118,231              |
| Some capital assets were transferred out to the other State agencies and, therefore, were removed from fund balance without any corresponding proceeds.   |             |           |                      |
|   |             |           | (103,581)            |
| 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 compensated absences. |             |           |                      |
| Increase in compensated absences  |             |           | <u>(75)</u>          |
| <b>Change in net assets of governmental activities</b>  |             | <b>\$</b> | <b><u>16,815</u></b> |

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

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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. The CDB's principal statutory functions and responsibilities are:

- To build or otherwise provide capital facilities and improvements for which money has been appropriated by the General Assembly.
- To conduct continuous studies into the costs of building or otherwise providing capital facilities.
- To conduct research for improvements in choice of materials and systems and in construction methods for reducing construction costs and operating and maintenance costs of capital facilities.
- 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.
- 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 FINANCIAL STATEMENTS  
JUNE 30, 2007**

**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 government 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, Financial Reporting Department, 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, the 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, 2007, 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 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 CDB. Eliminations have been made to minimize the double-counting of internal activities of the CDB.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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.

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 on major governmental fund, each 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 2(D)) of the State:

General Fund - 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 Funds - 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 School Infrastructure Fund Act, the Fund for Illinois' Future Act, and the Tobacco Settlement Recovery Fund are accounted for in the special revenue fund. All the

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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 CDB Special Projects Fund (170) is a non-shared fund that accounts for the receipts of grant funds from other State agencies.

The CDB Revolving Fund (215) is a non-shared fund that accounts for a three (3) percent contract administration fee assessed on most CDB contracts in order to fund the internal operations of the CDB.

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 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.



**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

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.

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 when cash is received.

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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.

**D. Shared Fund Presentation**

The financial statement presentation for the General Revenue Fund, Capital Development Fund, School Construction Fund, Asbestos Abatement Fund, School Infrastructure Fund, Tobacco Settlement Recovery Fund, and Build Illinois Bond Fund represents only the portion of certain 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 Appropriation*

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.

*Reappropriation to Future Year(s)*

This contra revenue account reduces current year appropriations by the amount of the appropriation 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.

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*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 interdepartmental 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 governmental funds balance sheet or the government-wide statements of net assets.

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*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.

*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<br/>Threshold</u> | <u>Estimated<br/>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 statement of net assets 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).

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Legislation that become 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.

**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 CDB's governmental-wide financial statements, equity is displayed in the 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.

*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.

**N. Future Adoption of GASB Statement No. 48**

Effective for the year ending June 30, 2008 the CDB will adopt GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which established accounting and financial reporting standards for

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transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. The CDB has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

**NOTE 3 - DEPOSITS AND INVESTMENTS**

The State Treasurer is the custodian of the State's deposits and investments 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.

Cash on deposit for locally held funds has a carrying amount and bank balance of \$10.586 million at June 30, 2007. Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Of the total bank balance, \$153 thousand was exposed to custodial credit risk as uninsured with collateral held by the pledging financial institutions in the State's name, \$392 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 \$5.232 million was exposed to custodial credit risk as uninsured and uncollateralized.

Deposits in the custody of the State Treasurer, or in transit, totaled \$18.719 million at June 30, 2007. 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). Funds held by the State Treasurer have not been categorized as to credit risk because the CDB does not own individual securities. Detail on the nature of these deposits and investments are 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, 2007 represent amounts due from other CDB and State of Illinois funds:

| Fund                        | Due From Other<br>State Funds | Description/Purpose  |
|-----------------------------|-------------------------------|--|
| Nonmajor governmental funds | \$ 2,949                      | Due from nonmajor governmental funds for capital project grants and contracts. |

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**B. Due to Other State Funds**

The following balances (amounts expressed in thousands) at June 30, 2007 represents amounts due to other CDB and State of Illinois funds:

| Fund                   | Due To Other<br>State Funds | Due to Other<br>State Fiduciary<br>Funds | Description/Purpose   |
|------------------------|-----------------------------|--|---|
| Internal Service Funds | \$ 86                       | \$ 2                                     | Due to internal service funds for operational services provided and other State fiduciary funds for employee health insurance and post employment benefits. |

**C. Transfers To/From Other Funds**

Interfund transfers out (amount expressed in thousands) for the year ended June 30, 2007 were as follows:

| Fund                        | Due From Other<br>State Funds | Description/Purpose                          |
|-----------------------------|-------------------------------|--|
| Nonmajor governmental funds | \$ 358                        | Transfers to assist State budget shortfalls. |

**NOTE 5 - LOANS RECEIVABLE**

Loans receivable in the General Fund are comprised of \$14,968 (in thousands) receivable from the Illinois International Port District (Port District).

The loan agreement between the Port District and CDB requires payments to CDB based on percentages of Port District income or gross receipts, as defined in the agreements. As to the status of collections, 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 of 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, 2007.

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

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JUNE 30, 2007**

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2007 was as follows:

|   | <u>Balance<br/>July 1, 2006</u> | <u>Additions</u>  | <u>Deletions</u> | <u>Net<br/>Transfers</u> | <u>Balance<br/>June 30, 2007</u> |
|---|---------------------------------|-------------------|------------------|--------------------------|----------------------------------|
| Governmental activities:                  |                                 |                   |                  |                          |                                  |
| Capital assets not being depreciated:     |                                 |                   |                  |                          |                                  |
| Construction in progress                  | \$ 46,893                       | \$ 118,210        | \$ -             | \$ (103,581)             | \$ 61,522                        |
| Capital assets being depreciated:         |                                 |                   |                  |                          |                                  |
| Equipment                                 | 1,177                           | 49                | 157              | -                        | 1,069                            |
| Less accumulated depreciation             | 1,030                           | 28                | 157              | -                        | 901                              |
| Capital assets being depreciated, net     | 147                             | 21                | -                | -                        | 168                              |
| Governmental activity capital assets, net | <u>\$ 47,040</u>                | <u>\$ 118,231</u> | <u>\$ -</u>      | <u>\$ (103,581)</u>      | <u>\$ 61,690</u>                 |

Depreciation expense charged to governmental activities - general government totaled \$28 (amount expressed in thousands) for the year.

**NOTE 7 - LONG-TERM OBLIGATIONS**

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2007 were as follows:

|                          | <u>Balance<br/>July 1, 2006</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance<br/>June 30, 2007</u> | <u>Amount<br/>Due Within<br/>One Year</u> |
|--------------------------|---------------------------------|------------------|------------------|----------------------------------|---|
| Governmental activities: |                                 |                  |                  |                                  |   |
| Compensated absences     | \$ 874                          | \$ 586           | \$ 511           | \$ 949                           | \$ 95                                     |

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

**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



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JUNE 30, 2007**

(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 2007 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2007. 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 2007, the employer contribution rate was 11.525%. 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.

**NOTE 9 - POST RETIREMENT 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 by 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.

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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

**NOTE 10 - RISK MANAGEMENT**

The CDB is exposed to various risks of loss related to torts; thefts 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 2007 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, 2007. There have been no settlements that exceeded insurance coverage during the last three fiscal years.

**NOTE 11 - COMMITMENTS AND CONTINGENCIES**

A. Operating Leases

The CDB leases equipment 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 operation costs. Rent expense under operating leases was \$235 (amount expressed in thousands) for the year ended June 30, 2007.

B. Construction Commitments

The CDB has outstanding construction projects for State and other facilities in which it has entered into future commitments. The amount of CDB's commitment which includes amounts related to projects for component units was \$242.1 million at June 30, 2007.

**STATE OF ILLINOIS  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007**

*Components of Construction in Progress*

| Project   | As of and for the year Ended June 30, 2007<br>(Expressed in Thousand) |                          |                      |                         |
|---|---|--------------------------|----------------------|-------------------------|
|   | Project Authorization   | Expended Through June 30 | Committed at June 30 | Available Authorization |
| LaSalle Veteran's Home                                      | \$ 15,229   | \$ 10,105                | \$ 3,549             | \$ 1,575                |
| IYC Harrisburg Vocational & Med/Confinement                 | 10,250  | 493                      | 371                  | 9,386                   |
| IYC St. Charles Reception and Classification                | 26,150  | 1,119                    | 935                  | 24,096                  |
| Menard Correctional Center - Administration Building        | 13,454  | 1,794                    | 595                  | 11,065                  |
| Alton Mental Health Center Building Addition                | 15,800  | 5,126                    | 611                  | 10,063                  |
| New Academy Camp Lincoln Springfield                        | 15,415  | 13,555                   | 1,782                | 78                      |
| Springfield Stratton Bldg. Planning & Design for Renovation | 11,583  | -                        | -                    | 11,583                  |
| Others (less than \$10,000,000)                             | 291,611   | 29,330                   | 61,238               | 201,043                 |
| <b>Total</b>  | <b>\$ 399,492</b>   | <b>\$ 61,522</b>         | <b>\$ 69,081</b>     | <b>\$ 268,889</b>       |

**C. Litigation**

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.

**SUPPLEMENTARY INFORMATION**

STATE OF ILLINOIS  
 CAPITAL DEVELOPMENT BOARD  
 NONMAJOR GOVERNMENTAL FUNDS  
 COMBINING BALANCE SHEETS  
 JUNE 30, 2007  
 (Expressed in Thousands)

|  | Special<br>Revenue<br>Funds | Capital<br>Projects<br>Funds | Total<br>(Memorandum<br>Only) |
|--|-----------------------------|------------------------------|-------------------------------|
| <b>ASSETS</b>                              |                             |                              |                               |
| Unexpended appropriations                  | \$ 429                      | \$ 32,128                    | \$ 32,557                     |
| Cash equity with State Treasurer           | 1,750                       | 16,969                       | 18,719                        |
| Cash and cash equivalents                  | -                           | 10,586                       | 10,586                        |
| Intergovernmental receivables              | -                           | 1,115                        | 1,115                         |
| Due from other State funds                 | -                           | 2,949                        | 2,949                         |
| Other receivables                          | 2,072                       | -                            | 2,072                         |
| <b>TOTAL ASSETS</b>                        | <b>4,251</b>                | <b>63,747</b>                | <b>67,998</b>                 |
| <b>LIABILITIES AND FUND BALANCES</b>       |                             |                              |                               |
| <b>LIABILITIES</b>                         |                             |                              |                               |
| Accounts payable and accrued liabilities   | 298                         | 45,754                       | 46,052                        |
| Intergovernmental payables                 | -                           | 701                          | 701                           |
| Due to other State funds                   | 42                          | 46                           | 88                            |
| Deferred revenues                          | -                           | 13,918                       | 13,918                        |
| <b>Total liabilities</b>                   | <b>340</b>                  | <b>60,419</b>                | <b>60,759</b>                 |
| <b>FUND BALANCES</b>                       |                             |                              |                               |
| Reserved for encumbrances                  | 203                         | 13                           | 216                           |
| Unreserved, unrestricted                   | 3,708                       | 3,315                        | 7,023                         |
| <b>Total fund balances</b>                 | <b>3,911</b>                | <b>3,328</b>                 | <b>7,239</b>                  |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 4,251</b>             | <b>\$ 63,747</b>             | <b>\$ 67,998</b>              |

STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)

|  | Special<br>Revenue<br>Funds | Capital<br>Projects<br>Funds | Total<br>(Memorandum<br>Only) |
|--|-----------------------------|------------------------------|-------------------------------|
| <b>REVENUES</b>  |                             |                              |                               |
| Federal capital grants   | \$ -                        | \$ 21,066                    | \$ 21,066                     |
| Licenses and fees  | 4,835                       | -                            | 4,835                         |
| Other charges for services   | -                           | 18,960                       | 18,960                        |
| Other capital grants   | -                           | 622                          | 622                           |
| Miscellaneous  | 1                           | -                            | 1                             |
| Total revenues   | 4,836                       | 40,648                       | 45,484                        |
| <b>EXPENDITURES</b>  |                             |                              |                               |
| Education  | 22                          | 188,257                      | 188,279                       |
| General government   | 5,239                       | 40,676                       | 45,915                        |
| Capital outlays  | 477                         | 117,782                      | 118,259                       |
| Total expenditures   | 5,738                       | 346,715                      | 352,453                       |
| <b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>                          | (902)                       | (306,067)                    | (306,969)                     |
| <b>OTHER SOURCES (USES)</b>  |                             |                              |                               |
| Appropriations from State resources                                      | 5,479                       | 1,650,808                    | 1,656,287                     |
| Reappropriations to future year(s)                                       | (1,406)                     | (1,286,261)                  | (1,287,667)                   |
| Lapsed appropriations  | (2,742)                     | (48,381)                     | (51,123)                      |
| Receipts collected and transmitted to State Treasury                     | -                           | (51)                         | (51)                          |
| Net change in liabilities for reappropriated accounts                    | (68)                        | (7,731)                      | (7,799)                       |
| Operating transfers out  | (320)                       | (38)                         | (358)                         |
| Total other sources (uses)   | 943                         | 308,346                      | 309,289                       |
| <b>EXCESS OF REVENUES OVER EXPENDITURES<br/>AND OTHER SOURCES (USES)</b> | 41                          | 2,279                        | 2,320                         |
| <b>FUND BALANCES, JULY 1, 2006</b>                                       | 3,870                       | 1,049                        | 4,919                         |
| <b>FUND BALANCES, JUNE 30, 2007</b>                                      | \$ 3,911                    | \$ 3,328                     | \$ 7,239                      |

STATE OF ILLINOIS  
 CAPITAL DEVELOPMENT BOARD  
 SPECIAL REVENUE FUNDS  
 COMBINING BALANCE SHEETS  
 JUNE 30, 2007  
 (Expressed in Thousands)

|                     | CDB Special Projects |     | CDB Revolving Fund |     | Asbestos Abatement Fund |     | School Infrastructure Fund |     | Tobacco Settlement Recovery Fund |     | Total |
|---------------------|----------------------|-----|--------------------|-----|-------------------------|-----|----------------------------|-----|----------------------------------|-----|-------|
|                     | Fund                 | 170 | Fund               | 215 | Fund                    | 224 | Fund                       | 568 | Fund                             | 733 |       |
| \$                  | -                    | \$  | -                  | \$  | 1                       | \$  | 43                         | \$  | 385                              | \$  | 429   |
|                     | 50                   |     | 1,700              |     | -                       |     | -                          |     | -                                |     | 1,750 |
|                     | -                    |     | 2,072              |     | -                       |     | -                          |     | -                                |     | 2,072 |
| <b>TOTAL ASSETS</b> | 50                   |     | 3,772              |     | 1                       |     | 43                         |     | 385                              |     | 4,251 |

ASSETS

Unexpended appropriations  
 Cash equity with State Treasurer  
 Other receivables

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable and accrued liabilities  
 Due to other state funds

Total liabilities

FUND BALANCES

Reserved for encumbrances  
 Unreserved, unrestricted:

Total fund balances

|    |       |    |       |     |       |    |    |    |     |    |       |
|----|-------|----|-------|-----|-------|----|----|----|-----|----|-------|
| 40 | 22    | 1  | 38    | 197 | 298   |    |    |    |     |    |       |
| 10 | 32    | -  | -     | -   | 42    |    |    |    |     |    |       |
| 50 | 54    | 1  | 38    | 197 | 340   |    |    |    |     |    |       |
| -  | 10    | -  | 5     | 188 | 203   |    |    |    |     |    |       |
| -  | 3,708 | -  | -     | -   | 3,708 |    |    |    |     |    |       |
| -  | 3,718 | -  | 5     | 188 | 3,911 |    |    |    |     |    |       |
| \$ | 50    | \$ | 3,772 | \$  | 1     | \$ | 43 | \$ | 385 | \$ | 4,251 |

TOTAL LIABILITIES AND FUND BALANCES

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SPECIAL REVENUE FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

|   | CDB Special<br>Projects<br>Fund<br>170 | CDB Revolving<br>Fund<br>215 | Asbestos<br>Abatement<br>Fund<br>224 | School<br>Infrastructure<br>Fund<br>568 | Tobacco<br>Settlement<br>Recovery Fund<br>733 | Total<br>(Memorandum<br>Only) |
|---|--|------------------------------|--------------------------------------|---|---|-------------------------------|
| <b>REVENUES</b>   |  |                              |                                      |   |   |                               |
| Licenses and fees   | \$ -                                   | \$ 4,835                     | \$ -                                 | \$ -                                    | \$ -  | \$ 4,835                      |
| Other revenues  | -                                      | 1                            | -                                    | -                                       | -   | 1                             |
| Total revenues  | -                                      | 4,836                        | -                                    | -                                       | -   | 4,836                         |
| <b>EXPENDITURES</b>   |  |                              |                                      |   |   |                               |
| Education   | -                                      | -                            | -                                    | -                                       | 22  | 22                            |
| General government  | -                                      | 4,645                        | 95                                   | 490                                     | 9   | 5,239                         |
| Capital outlays   | -                                      | 23                           | -                                    | -                                       | 454   | 477                           |
| Total expenditures  | -                                      | 4,668                        | 95                                   | 490                                     | 485   | 5,738                         |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>                              | -                                      | 168                          | (95)                                 | (490)                                   | (485)   | (902)                         |
| <b>OTHER SOURCES (USES)</b>   |  |                              |                                      |   |   |                               |
| Appropriations from State resources   | -                                      | -                            | 1,507                                | 550                                     | 3,422   | 5,479                         |
| Reappropriations to future year(s)  | -                                      | -                            | (1,406)                              | -                                       | -   | (1,406)                       |
| Lapsed appropriations   | -                                      | -                            | -                                    | (55)                                    | (2,687)                                       | (2,742)                       |
| Net change in liabilities for reappropriated accounts                                 | -                                      | -                            | (6)                                  | -                                       | (62)  | (68)                          |
| Operating transfers out   | -                                      | (320)                        | -                                    | -                                       | -   | (320)                         |
| Total other sources (uses)  | -                                      | (320)                        | 95                                   | 495                                     | 673   | 943                           |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER<br/>EXPENDITURES AND OTHER SOURCES (USES)</b> | -                                      | (152)                        | -                                    | 5                                       | 188   | 41                            |
| <b>FUND BALANCES, JULY 1, 2006</b>  | -                                      | 3,870                        | -                                    | -                                       | -   | 3,870                         |
| <b>FUND BALANCES, JUNE 30, 2007</b>   | \$ -                                   | \$ 3,718                     | \$ -                                 | \$ 5                                    | \$ 188  | \$ 3,911                      |



STATE OF ILLINOIS  
 CAPITAL DEVELOPMENT BOARD  
 CAPITAL PROJECTS FUNDS  
 COMBINING BALANCE SHEETS  
 JUNE 30, 2007  
 (Expressed in Thousands)

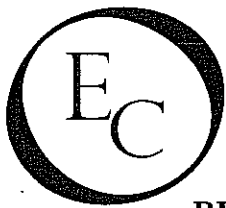
|                                  | Capital       | School       | CDB           | Build Illinois | Total         |
|----------------------------------|---------------|--------------|---------------|----------------|---------------|
|                                  | Development   | Construction | Contributory  |                |               |
|                                  | Fund          | Fund         | Trust Fund    | Fund           | Only)         |
|                                  | 141           | 143          | 617           | 971            |               |
| \$                               | 27,147        | \$ 701       | \$ -          | \$ 4,280       | \$ 32,128     |
| Unexpended appropriations        | -             | -            | 16,969        | -              | 16,969        |
| Cash equity with State Treasurer | 6,655         | -            | 2,206         | 1,725          | 10,586        |
| Cash and cash equivalents        | -             | -            | 1,115         | -              | 1,115         |
| Intergovernmental receivables    | -             | -            | 2,949         | -              | 2,949         |
| Due from other State funds       |               |              |               |                |               |
| <b>TOTAL ASSETS</b>              | <b>33,802</b> | <b>701</b>   | <b>23,239</b> | <b>6,005</b>   | <b>63,747</b> |

**LIABILITIES AND FUND BALANCES**

|  |                  |               |                  |                 |                  |
|--|------------------|---------------|------------------|-----------------|------------------|
| <b>LIABILITIES</b>                         |                  |               |                  |                 |                  |
| Accounts payable and accrued liabilities   | 33,743           | -             | 6,006            | 6,005           | 45,754           |
| Intergovernmental payables                 | -                | 701           | -                | -               | 701              |
| Due to other State funds                   | 46               | -             | -                | -               | 46               |
| Deferred revenues                          | -                | -             | 13,918           | -               | 13,918           |
| Total liabilities                          | 33,789           | 701           | 19,924           | 6,005           | 60,419           |
| <b>FUND BALANCES</b>                       |                  |               |                  |                 |                  |
| Reserved for encumbrances                  | 13               | -             | -                | -               | 13               |
| Unreserved, unrestricted                   | -                | -             | 3,315            | -               | 3,315            |
| Total fund balances                        | 13               | -             | 3,315            | -               | 3,328            |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 33,802</b> | <b>\$ 701</b> | <b>\$ 23,239</b> | <b>\$ 6,005</b> | <b>\$ 63,747</b> |

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
CAPITAL PROJECTS FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2007  
(Expressed in Thousands)**

|   | Capital Development Fund | School Construction Fund | CDB Trust Fund | Build Illinois Bond Fund | Total (Memorandum Only) |
|---|--------------------------|--------------------------|----------------|--------------------------|-------------------------|
| <b>REVENUES</b>   | 141                      | 143                      | 617            | 971                      |                         |
| Federal capital grants  | \$ -                     | \$ -                     | \$ 21,066      | \$ -                     | \$ 21,066               |
| Other charges for services  | -                        | -                        | 18,960         | -                        | 18,960                  |
| Other capital grants  | -                        | -                        | 622            | -                        | 622                     |
| Total revenues  | -                        | -                        | 40,648         | -                        | 40,648                  |
| <b>EXPENDITURES</b>   |                          |                          |                |                          |                         |
| Education   | 76,243                   | 33,114                   | 16,064         | 62,836                   | 188,257                 |
| General government  | 40,221                   | -                        | 436            | 19                       | 40,676                  |
| Capital outlays   | 94,190                   | -                        | 21,800         | 1,792                    | 117,782                 |
| Total expenditures  | 210,654                  | 33,114                   | 38,300         | 64,647                   | 346,715                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>                          | (210,654)                | (33,114)                 | 2,348          | (64,647)                 | (306,067)               |
| <b>OTHER SOURCES (USES)</b>   |                          |                          |                |                          |                         |
| Appropriations from State resources   | 1,285,374                | 98,825                   | -              | 266,609                  | 1,650,808               |
| Reappropriations to future year(s)  | (1,022,774)              | (65,636)                 | -              | (197,851)                | (1,286,261)             |
| Lapsed appropriations   | (46,588)                 | -                        | -              | (1,793)                  | (48,381)                |
| Receipts collected and transmitted to State Treasury                              | (51)                     | -                        | -              | -                        | (51)                    |
| Net change in liabilities for reappropriated accounts                             | (5,338)                  | (75)                     | -              | (2,318)                  | (7,731)                 |
| Operating transfers out   | -                        | -                        | (38)           | -                        | (38)                    |
| Total other sources (uses)  | 210,623                  | 33,114                   | (38)           | 64,647                   | 308,346                 |
| <b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER SOURCES (USES)</b> | (31)                     | -                        | 2,310          | -                        | 2,279                   |
| <b>FUND BALANCES, JULY 1, 2006</b>  | 44                       | -                        | 1,005          | -                        | 1,049                   |
| <b>FUND BALANCES, JUNE 30, 2007</b>   | \$ 13                    | \$ -                     | \$ 3,315       | \$ -                     | \$ 3,328                |



E.C. ORTIZ & CO., LLP  
CERTIFIED PUBLIC ACCOUNTANTS

**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 Members  
Capital Development Board

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, the 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, 2007, which collectively comprise the State of Illinois Capital Development Board's basic financial statements and have issued our report thereon dated December 19, 2007. 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 for the purpose of expressing an opinion on the effectiveness of the State of Illinois Capital Development Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Illinois Capital Development Board's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (07-1 and 07-2).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 07-1 and 07-2.

The State of Illinois Capital Development Board's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the State of Illinois Capital Development Board's responses and, accordingly, we express no opinion on them.

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 board members and audit committee members of the Capital Development Board and is not intended to be and should not be used by anyone other than these specified parties.

*E.C. Gertz & Co. LLP*

Chicago, Illinois  
December 19, 2007

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

**CURRENT FINDINGS - *GOVERNMENT AUDITING STANDARDS***

**Finding No. 07-1 - Inadequate Internal Control for Uninsured and Uncollateralized Deposits**

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

As of June 30, 2007, bank balances held in local funds as retainage on open construction projects for 58 accounts with 42 banks totaled \$10.586 million. Of this total, \$5.232 million exceeded Federal Deposit Insurance Corporation (FDIC) coverage and was not adequately collateralized. The FDIC covers up to a maximum of \$100,000 per account holder. The CDB confirmed biannually, with the individual banks holding the deposits, the balance of the deposits held and whether these deposits were insured or if collateral was pledged to secure these deposits. The CDB did not obtain additional collateral for some deposit amounts exceeding the FDIC coverage.

The CDB's revised Retention Trust Agreement requires the bank, as trustee, to ensure that all time deposits, open accounts, certificates of deposits, and savings accounts be covered by a pledge of securities for the difference between the FDIC insurance and the total unsecured amount.

The State Officers and Employees Money Disposition Act (30 ILCS 230/2c) requires that a bond, pledged securities, or other eligible collateral be obtained whenever funds deposited with a bank or savings and loan association exceed the amount of federal deposit insurance coverage. Also, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) 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.

According to CDB management, retention trust account activity was first established in the mid-70s when accounts were anticipated to be below the FDIC level and have duration of only two to three years. Over the years, as construction budgets increased and more sophisticated projects emerged, both the amounts and the duration have grown. Amendments in the retention trust agreement adding the need for collateralization were sent out to the banks and the contractors, however, the banks did not post the required additional collateralization.

Failure to secure full collateral on retention trust accounts increases the risk that the deposits on these accounts may not be repaid or returned to CDB in case of bank failure. (Finding Code Nos. 07-1, 06-1 and 05-1)

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**Finding No. 07-1 - Inadequate Internal Control for Uninsured and Uncollateralized Deposits (Continued)**

*Recommendation:*

We recommend that CDB design monitoring procedures to ensure that bank accounts are collateralized adequately.

*Board Response:*

We agree with the finding. CDB sent agreement amendments requiring collateralization to 71 accounts. Responses were returned by 24. Those not responding with a signed agreement cited their inability to provide the collateralization due to internal guidelines or a prohibitive cost. CDB will begin a new policy that new retention trust agreements be allowed only if the bank specifically responds to the collateralization requirement beginning January 1, 2008. Those accounts already in place will remain. We understand that the potential for a repeat finding will exist until the old accounts are all paid out.

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**Finding No. 07-2 - Inadequate Review of Retainage Payables and Related Contractor Accounts Payable Balances**

The Capital Development Board (CDB) did not initially review the retainage payables and related contractor accounts payable balances as of June 30, 2007 for accuracy and proper financial reporting.

CDB maintains a construction database to track retainage payables and contractor accounts payable balances. As construction vouchers are processed for payment, a retainage payable amount is established and adjusted to the retainage percentage required by the contracts. If a contract has a retention trust account established, the retainage amounts are processed with the construction vouchers for deposit to the retention trust account. At year-end, a contract retainage balances report and contractor accounts payable payments made during the lapse period are generated from the database and serve as the basis for the accounts payable and accrued liabilities reported in the financial statements.

Our review of the contract retainage balances report as of June 30, 2007 identified the following:

- Accounts payable were overstated by \$147,029 due to retainage incorrectly reported as outstanding for a contract, although the retainage amounts had already been paid to the retention trust account.
- A retainage balance of \$64,515 was incorrectly reported as outstanding for a contract that was fully settled through a court judgment.

Upon notification of the above items, CDB staff reviewed each retainage account balance in the report and identified additional balances that should be reduced or eliminated due to similar circumstances noted above and due to retainage payables paid during the lapse period also included in the contractor accounts payable balances.

Generally Accepted Accounting Principles require that expenditures for goods and services and related payables reported in the financial statements exist and represent valid transactions that occurred during the period. In addition, Procedure 03.50.10 of the Statewide Accounting Management System Manual (SAMS Manual) states that expenditures and related liabilities should be recognized in the accounting period in which the liability is incurred.

According to the CDB management, the retainage amount in the system is a data field provided as input in the payment process. The above exceptions noted by the auditors occurred due to court settlement and subsequent establishment of retention trust account that were not updated in

**STATE OF ILLINOIS  
CAPITAL DEVELOPMENT BOARD  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

**Finding No. 07-2 - Inadequate Review of Retainage Payables and Related Contractor Accounts Payable Balances (Continued)**

the system before the contract retainage balances report was generated. It has been CDB's past practice to add the contract retainage balances report amounts to the contractor accounts payable balances without considering that some retainage balances equal to the payments made in the lapse period were also included in the contractor accounts payable balances.

The final review by CDB staff of the contract retainage balances report identified a total of \$1.475 million reduction of liabilities. Failure to adequately review retainage payables and related contractor accounts payable balances may result in inaccurate GAAP package financial information and financial statement liability balances. (Finding Code No. 07-2)

*Recommendation:*

We recommend that CDB perform a review of retainage payables and related contractor accounts payable balances at year-end to ensure that liabilities exist and represent only valid amounts due to contractors. We further recommend that CDB design procedures to identify special circumstances (e.g. court settlements, subsequent establishment of trust accounts, etc) affecting the contract retainage balances report to ensure that adjustments to the contract liability balances are properly and timely recorded.

*Board Response:*

We agree with the finding. When a deduct change order takes a contract balance to zero before a final payment, the system retains the retainage amount from the most recent payment. If no further payments occur, the retainage amount remains in the system even though the contract balance was taken to zero. A warning has now been placed in the obligation system directing the fiscal staff person to determine if the deduct change order takes the balance to zero and if so, to change the retainage amount for non-retention accounts to zero. This should remove the problem addressed in the finding.