

WASHINGTON, PITTMAN & McKEEVER, LLC

*CERTIFIED PUBLIC ACCOUNTANTS AND
MANAGEMENT CONSULTANTS*

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

**FINANCIAL AUDIT
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

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

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT
For the Years Ended June 30, 2016 and 2015

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**STATE OF ILLINOIS
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(A Component Unit of the State of Illinois)
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For the Years Ended June 30, 2016 and 2015**

AGENCY OFFICIALS

Vice President of External Engagement - Illinois Mathematics and Science Academy (8/10/2015 to Current)	Mr. Jeffrey Margolis, Ph D.
Executive Director of Development - Illinois Mathematics and Science Academy (6/27/2016 to Current)	Ms. Barbara Graham
Executive Director of Development - Illinois Mathematics and Science Academy (through 11/30/2015)	Mr. Paul Milano
Vice President of Policy and Strategy - Illinois Mathematics and Science Academy (through 6/30/2015)	Ms. Catherine C. Veal

BOARD OF DIRECTORS

Mr. Anil Ahuja	Mr. Tom Kornmeier (to 5/19/2015)
Mr. Aziz Asphaphani	Dr. Cynthia Manfredi
Ms. Pamela Blackwell (to 5/17/2016)	Dr. Stephanie Pace Marshall
Mr. Joe Born (to 2/7/2015)	Mr. Paul Milano (to 11/30/2015)
Mr. Kevin Brookins	Ms. Eileen Murphy (to 4/29/2015)
Mr. Yuri Brown-Cruzat (to 9/9/2015)	Mr. Jacob Plummer
Ms. Stephanie Carreno	Vice President
Secretary (non-voting)	Governance Chair
Mr. Steve Chen	Mr. Jay Porter
Mr. Steve Collens	Mr. Glenn Rippie
Mr. Robert Darin	Vice President
Mr. Ross Hemphill	Mr. Aalap Shah
President	Mr. Michael Suh
Executive Chair	Treasurer
Mr. Troy Henikoff	Chair of Finance
Mr. John Hoesley (to 5/17/2016)	Ms. Kim Taylor
Ms. Mana Ionescu	Mr. Alex Weiner
	Mr. Sam Yagan

The Fund's office is located at: 1500 Sullivan Road, Suite 200, Aurora, Illinois 60506-1000

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
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FINANCIAL AUDIT
For the Years Ended June 30, 2016 and 2015

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the IMSA Fund for Advancement of Education as of and for the year ended June 30, 2016 and 2015 was performed by Washington, Pittman & McKeever, LLC.

Based on their audit, the auditors expressed an unmodified opinion on the Fund's basic financial statements for the years ended June 30, 2016 and 2015.

EXIT CONFERENCE

The IMSA Fund for Advancement of Education waived holding an exit conference in a communication from Barbara Graham, Executive Director of Development dated November 30, 2016.

WASHINGTON, PITTMAN & McKEEVER, LLC

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

And

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

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the business-type activities of the IMSA Fund for Advancement of Education, a component unit of the State of Illinois, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the IMSA Fund for Advancement of Education's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, for the IMSA Fund for Advancement of Education, as of June 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2016 on our consideration of the IMSA Fund for Advancement of Education's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the IMSA Fund for Advancement of Education's internal control over financial reporting and compliance.

WASHINGTON, PITTMAN & McKEEVER, LLC

**Chicago, Illinois
December 1, 2016**

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
(a Component Unit Of The State Of Illinois)
MANAGEMENT DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2016 and 2015

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

Statement of Net Position

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

CONDENSED STATEMENTS OF NET POSITION
For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Cash Equivalents	\$ 1,375,217	\$ 2,204,365
Investments	7,850,274	7,140,992
Accounts Receivable	74,677	30,095
Contribution Advances	685,308	192,591
Other Receivables	-	11,033
Prepaid Expenses	16,546	12,666
Pledges Receivable, Net	<u>244,636</u>	<u>671,605</u>
TOTAL ASSETS	<u>10,246,658</u>	<u>10,263,347</u>
LIABILITIES		
Accounts Payable	\$ 9,844	\$ 2,997
Unearned Revenue	<u>7,775</u>	<u>1,009,812</u>
TOTAL LIABILITIES	<u>\$ 17,619</u>	<u>\$ 1,012,809</u>
NET POSITION		
Unrestricted	\$ 5,997,240	\$ 6,165,113
Restricted, Expendable	4,098,088	2,951,714
Restricted, Nonexpendable	<u>133,711</u>	<u>133,711</u>
TOTAL NET POSITION	<u>\$ 10,229,039</u>	<u>\$ 9,250,538</u>

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Fiscal year ended June 30, 2016 ended with an increase in net position of \$978,501. This change was influenced by a significant decrease in liabilities and contributions in fiscal year 2016.

Pledges Receivable

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

Contribution Advances

Contribution Advances represent grants that may be spent over consecutive fiscal years. The Fund and the Academy identify those awards that may be carried over into another fiscal year. In order to account for those particular awards the Fund records them as contribution advances. Grants that have an award date ending on June 30th (the last day of the fiscal year) and remain unspent are returned to the Fund by the Academy. Grant refunds are then placed back into the respective account to be used at a later date.

Net Position

Net position is divided into three major categories. Unrestricted net position includes amounts not subject to donor-imposed stipulations and include all of the activities of the Fund, except for those amounts that are restricted by external donors. Restricted, expendable net position includes amounts that are subject to donor-imposed stipulations. These stipulations limit the use of the resources for specific purposes. Restricted, nonexpendable net position is to be held and invested in perpetuity with earnings thereof to be used for purposes as determined by donors making the contribution.

STATE OF ILLINOIS
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For the Years Ended June 30, 2016 and 2015

Statement of Revenues, Expenses, and Changes in Net Position

The purpose of the Statement of Revenues, Expenses, and Changes in Net Position is to present the revenues recognized by the Fund, both operating and non-operating, and expenses incurred by the Fund. Revenues primarily consist of contributions to the Fund, investment income, and support from the Academy. Expenses consist of amounts incurred to support and carry out the mission of the Fund.

**CONDENSED STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

For the Years Ended June 30,

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Contributions	2,512,244	3,235,442
Operating Agreement with Academy	202,396	303,141
Other Operating Revenues	<u>25,125</u>	<u>36,070</u>
TOTAL OPERATING REVENUES	<u>2,739,765</u>	<u>3,574,653</u>
OPERATING EXPENSES		
Academy Support	1,370,901	1,272,120
Management and General	94,752	69,892
Fundraising	46,608	62,484
Operating Agreement with Academy	<u>202,396</u>	<u>303,141</u>
TOTAL OPERATING EXPENSES	<u>1,714,657</u>	<u>1,707,637</u>
OPERATING INCOME	1,025,108	1,867,016
NON-OPERATING REVENUES AND EXPENSES	(46,607)	375,883
CONTRIBUTIONS TO PERMANENT ENDOWMENTS	<u>-</u>	<u>1,221</u>
CHANGE IN NET POSITION	978,501	2,244,120
NET POSITION - BEGINNING OF YEAR	<u>9,250,538</u>	<u>7,006,418</u>
NET POSITION - END OF YEAR	<u>\$ 10,229,039</u>	<u>\$ 9,250,538</u>

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MANAGEMENT DISCUSSION AND ANALYSIS
For the Years Ended June 30, 2016 and 2015

Operating Revenue

The total Operating Revenue of the Fund decreased 23% from fiscal years 2015 to 2016. This was primarily the result of an decrease in the amount of contributions received in fiscal year 2016.

The Fund's investment income decreased during fiscal year 2016. The Fund recorded interest and dividends income of \$116,509 and net losses on investments of \$(163,116) during fiscal year 2016, as compared to interest and dividend income of \$59,457 and net gains on investments of \$316,426 for fiscal year 2015.

Operating Expenses

Academy Support

The Fund recognized \$1,370,901 and \$1,272,120 in fiscal years 2016 and 2015, respectively, in direct support to the Academy. The Fund made an effort to maximize giving as the Academy faced declines in funding from other sources.

Academy Support is program services for those activities that the reporting organization was created to conduct and which, along with any activities commenced subsequently, form the basis of the organization's current tax exemption status. They may be self-funded or funded out of contributions, accumulated income, investment income, or any other source. Fundraising expenses are not reported as program-related expenses even though one of the functions of the organization is to solicit contributions for the benefit of another organization.

Fundraising

Fundraising expenses include expenses incurred in soliciting contributions, gifts, grants, etc. The following activities are reported as fundraising expenses:

- A. Publicizing and conducting fund raising campaigns
- B. Soliciting bequests and grants
- C. Preparing and distributing fundraising manuals

The fiscal year 2016 Fundraising expenses decreased 25% compared to fiscal year 2015. During fiscal year 2016, the Fund expended less on consulting costs.

Management and General

Management and general expenses increased from \$69,892 in fiscal year 2015 to \$94,752 in fiscal year 2016.

Management and General Expenses include the salaries and expense allocations of staff and expenses incurred directly by the Fund's operations except those provided by the Academy pursuant to the operating agreement. These include meetings of the Board of Directors; committee and staff meetings (unless held in connection with specific program services or fundraising activities); general legal services, general liability insurance, office management, auditing, personnel, and preparation, publication, and distribution of an annual report; and investment expenses.

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For the Years Ended June 30, 2016 and 2015

Change in Net Position

Net Position increased by \$978,501 over the past fiscal year. During fiscal year 2016, decreases in contributions and liabilities allowed the Fund to continue to operate at a gain. The Fund will continue to use existing fund balances to support Academy projects.

Statement of Cash Flows

The Fund uses the Statement of Cash Flows to identify cash provided by or used in operating, investing and financing activities. The Fund had a \$829,148 decrease in cash and cash equivalents during fiscal year 2016.

CONDENSED STATEMENTS OF CASH FLOWS

For the Years Ended June 30,

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	\$ 1,915,691	\$ 3,714,075
Cash Paid to Grantee, Suppliers and Academy Employees	<u>(1,999,535)</u>	<u>(1,370,777)</u>
	<u>(83,844)</u>	<u>2,343,298</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	116,509	48,424
Cash Payment for the Purchase of Investments	(14,116,463)	(2,987,464)
Cash Proceeds from Sale of Investments	<u>13,254,650</u>	<u>1,571,054</u>
	<u>(745,304)</u>	<u>(1,367,986)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received for Permanent Endowments	<u>-</u>	<u>1,221</u>
	<u>-</u>	<u>1,221</u>
NET (DE)INCREASE IN CASH AND CASH EQUIVALENTS	(829,148)	976,533
CASH AND CASH EQUIVALENTS,		
BEGINNING OF YEAR	<u>2,204,365</u>	<u>1,227,832</u>
END OF YEAR	<u>\$ 1,375,217</u>	<u>\$ 2,204,365</u>

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Economic Outlook

The Fund continues to invest in various investment securities. During the current fiscal year, the Fund moved their investments to a new provider which will utilize Mutual Funds rather than Municipal Bonds, Certificates of Deposits and U.S. Treasuries. Overall, the prior fiscal year saw the economy and financial markets improve, whereas this fiscal year the Fund realized a net loss. The future economic outlook at year-end remains stable. However, investments, as always, were exposed to various risks such as interest rate, market and credit risks.

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

STATE OF ILLINOIS
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STATEMENTS OF NET POSITIONS
As of June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 1,375,217	\$ 2,204,365
Investments	7,716,563	7,007,281
Accounts Receivable	74,677	30,095
Contribution Advances	685,308	192,591
Other Receivables	-	11,033
Prepaid Expenses	16,546	12,666
Pledges Receivable, Net	<u>122,848</u>	<u>614,478</u>
Total Current Assets	<u>9,991,159</u>	<u>10,072,509</u>
Non-Current Assets		
Pledges Receivable, Net	121,788	57,127
Endowment Investments	<u>133,711</u>	<u>133,711</u>
Total Non-Current Assets	<u>255,499</u>	<u>190,838</u>
TOTAL ASSETS	<u>10,246,658</u>	<u>10,263,347</u>
LIABILITIES		
Accounts Payable	9,844	2,997
Unearned Revenue	<u>7,775</u>	<u>1,009,812</u>
TOTAL LIABILITIES	<u>17,619</u>	<u>1,012,809</u>
NET POSITION		
Unrestricted Net Assets	5,997,240	6,165,113
Restricted, Expendable	4,098,088	2,951,714
Restricted, Non-Expendable	<u>133,711</u>	<u>133,711</u>
TOTAL NET POSITION	<u>\$ 10,229,039</u>	<u>\$ 9,250,538</u>

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

STATE OF ILLINOIS
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STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Contributions	\$ 2,512,244	\$ 3,235,442
Operating Agreement with Academy	202,396	303,141
Program Fees	22,648	28,725
In-Kind Contributions of Goods and Services	<u>2,477</u>	<u>7,345</u>
Total Operating Revenues	<u>2,739,765</u>	<u>3,574,653</u>
Operating Expenses		
Academy Support	1,370,901	1,272,120
Management and General	94,752	69,892
Fundraising	46,608	62,484
Operating Agreement with Academy	<u>202,396</u>	<u>303,141</u>
Total Operating Expenses	<u>1,714,657</u>	<u>1,707,637</u>
Operating Income	<u>1,025,108</u>	<u>1,867,016</u>
Non-Operating Revenues (Expenses)		
Interest and Dividend Income	116,509	59,457
Net Gain on Investment	<u>(163,116)</u>	<u>316,426</u>
Net Non-Operating Revenues (Expenses)	<u>(46,607)</u>	<u>375,883</u>
Income Before Other Revenues	<u>978,501</u>	<u>2,242,899</u>
Contributions to Permanent Endowments	<u>-</u>	<u>1,221</u>
Total Other Revenues	<u>-</u>	<u>1,221</u>
CHANGE IN NET POSITION	978,501	2,244,120
NET POSITION - BEGINNING OF YEAR	<u>9,250,538</u>	<u>7,006,418</u>
NET POSITION - END OF YEAR	<u>\$ 10,229,039</u>	<u>\$ 9,250,538</u>

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

STATE OF ILLINOIS
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STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Supporters and Grantors	\$ 1,915,691	\$ 3,714,075
Cash Paid to Grantee, Suppliers and Academy Employees	<u>(1,999,535)</u>	<u>(1,370,777)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>(83,844)</u>	<u>2,343,298</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received	116,509	48,424
Cash Payment for the Purchase of Investments	(14,116,463)	(2,987,464)
Cash Proceeds from Sale of Investments	<u>13,254,650</u>	<u>1,571,054</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(745,304)</u>	<u>(1,367,986)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash Received for Permanent Endowments	<u>-</u>	<u>1,221</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>-</u>	<u>1,221</u>
INCREASE IN CASH AND CASH EQUIVALENTS	(829,148)	976,533
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>2,204,365</u>	<u>1,227,832</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u>\$ 1,375,217</u>	<u>\$ 2,204,365</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	1,025,108	1,867,016
Adjustments to Reconcile operating Income to Net Cash Provided by Operating Activities:		
Loss on Sale of Donated Stock	447	-
Changes in Certain Assets and Liabilities:		
Accounts Receivable	(44,582)	8,088
Contribution Advances	(492,717)	26,787
Prepaid Expenses	(3,880)	6,392
Pledges Receivable	426,970	(50,041)
Accounts Payable	6,847	(6,806)
Unearned Revenue	<u>(1,002,037)</u>	<u>491,862</u>
Total Adjustments	<u>(1,108,952)</u>	<u>476,282</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ (83,844)</u>	<u>\$ 2,343,298</u>
NONCASH INVESTING ACTIVITIES		
Unrealized (Loss) Gain on Investments	<u>\$ (1,137,068)</u>	<u>\$ 180,798</u>

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

STATE OF ILLINOIS
IMSA FUND FOR ADVANCEMENT OF EDUCATION
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016 and 2015

NOTE A – ORGANIZATION

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Financial Reporting Entity

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

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

Based upon the required criteria, the Fund has no component units, but is a component unit of the State of Illinois financial reporting entity. The financial balances and activities included in these basic financial statements could, therefore, also be included in the State's comprehensive annual financial report.

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

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June 30, 2016 and 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Basis of Accounting

For financial reporting purposes, the Fund is considered a special-purpose government engaged only in business-type activities. Accordingly, the accompanying financial statements of the Fund have been prepared on the accrual basis of accounting using the economic resources measurement focus. Under the accrual basis, revenues are recognized when earned, and expenses are recognized when a liability has been incurred.

3. Basis of Presentation

In accordance with GASB Statement No. 20, the Fund is required to follow all applicable GASB pronouncements. Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Private-sector standards issued after that date are not followed.

4. Cash and Cash Equivalents

Cash and cash equivalents include debt securities and certificates of deposit with a maturity of 90 days or less at the time of acquisition, cash on hand, cash in banks, and money market funds held in an investment account in the name of IMSA Fund for Advancement of Education.

5. Investments

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

Investments are recorded at fair market value as determined by quoted market prices. Investments are pooled for the purposes of allocating realized gains and losses, unrealized gains and losses and ordinary income, net of investment fees, to the unallocated reserve in the restricted fund. Allocation to specific accounts is based on contractual obligations and the Fund's investment policy.

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The three-tier hierarchy of inputs is summarized as follows:

Level 1 – inputs are quoted prices in active markets for identical assets that are accessible at the date of measurement.

Level 2 – inputs other than quoted prices that are observable for an asset, either directly or indirectly.

Level 3 – unobservable inputs for an asset.

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

6. Accounts Receivable

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

7. Unearned Revenue

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

8. Classification of Revenues

The Fund has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues generally include activities that have the characteristics of exchange transactions or that are part of the Fund's mission to raise funds for the Academy, such as gifts, contributions and other revenues generated in support of the Academy, per contractual agreement with the Academy.

Non-operating revenues include investment income and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

9. Net Position

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

Restricted – this consists of assets plus deferred outflows of resources, less liabilities, less deferred inflows of resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the Fund's policy to use restricted resources first, then unrestricted resources when they are needed. These restricted resources are to be used for educational purposes.

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

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NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

10. Use of Estimates

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

11. New Pronouncements

The Fund adopted the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. These statements had little or no accounting impact on the Fund. In addition, the Fund will be required to implement additional GASB Statements in future fiscal years. The Fund has not yet evaluated the impact of these statements on its financial statements.

12. Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE C – DEPOSITS AND INVESTMENTS

The Fund independently manages its cash and cash equivalents which are maintained outside the State Treasury. A reconciliation of deposits and investments presented in this disclosure and the financial statement captions shown on the Statement of Net Position is as follows:

	<u>2016</u>	<u>2015</u>
Carrying Amount of Deposits	\$ 278,206	\$ 813,737
Carrying Amount of Investments	7,850,274	6,616,993
Money Market Funds	1,096,811	1,914,427
Petty Cash	<u>200</u>	<u>200</u>
Total	<u>\$ 9,225,491</u>	<u>\$ 9,345,357</u>
	<u>2016</u>	<u>2015</u>
Cash and Cash Equivalents	\$ 1,375,217	\$ 2,204,365
Investments	7,716,563	7,007,281
Endowment Investments	<u>133,711</u>	<u>133,711</u>
Total	<u>\$ 9,225,491</u>	<u>\$ 9,345,357</u>

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NOTE C – DEPOSITS AND INVESTMENTS (CONTINUED)

1. Deposits

Deposits with financial institutions had a carrying amount of \$278,206 and \$813,737 and bank balances of \$233,838 and \$737,833 at June 30, 2016 and 2015, respectively. These amounts represent cash in banks and certificates of deposit.

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure deposits may not be returned. At June 30, 2016 and 2015, deposits were fully insured by the Federal Deposit Insurance Corporation (FDIC) or pledged collateral. Certificates of deposit were held in the Fund’s investment brokerage accounts.

2. Investments

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

Investments at June 30, 2016 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>No Maturity Date</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 +</u>
Mutual Funds-Bonds	\$3,407,239	\$ -	\$ 91,995	\$1,570,443	\$1,303,204	\$ 441,597
Equity Funds	4,147,577	4,147,577	-	-	-	-
IShares Currency Hedged	295,458	295,458	-	-	-	-
Total	<u>\$7,850,274</u>	<u>\$4,443,035</u>	<u>\$ 91,995</u>	<u>\$1,570,443</u>	<u>\$1,303,204</u>	<u>\$ 441,597</u>

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NOTE C – DEPOSITS AND INVESTMENTS (CONTINUED)

2. Investments (Continued)

Investments at June 30, 2015 consisted of the following managed funds:

<u>Investment Types</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>				
		<u>No Maturity Date</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>10 +</u>
Corporate Equity	\$4,384,590	\$4,384,590	\$ -	\$ -	\$ -	\$ -
U.S. Treasuries	396,996	-	50,102	346,894	-	-
U.S. Agency Obligations	501,691	-	-	476,410	25,281	-
Unit Trusts	147,036	-	-	36,388	107,176	3,472
Municipal Debt Securities	<u>1,186,680</u>	<u>-</u>	<u>-</u>	<u>1,068,353</u>	<u>27,381</u>	<u>90,946</u>
Total	<u>\$6,616,993</u>	<u>\$4,384,590</u>	<u>\$ 50,102</u>	<u>\$1,928,045</u>	<u>\$ 159,838</u>	<u>\$ 94,418</u>

In addition to the above investments, the Fund maintained money market funds (reported as cash equivalents on the statements of net position) in investment accounts that had a carrying amount and fair market value of \$1,096,811 and \$1,914,427 at June 30, 2016 and 2015, respectively.

The valuation by levels at June 30, 2016 is as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money Market Funds	\$ 1,096,815	\$ -	\$ -
Mutual Funds	3,407,236	-	-
Equity Funds	4,147,577	-	-
iShares Currency Hedged ETFs	-	295,458	-
	<u>\$ 8,651,628</u>	<u>\$ 295,458</u>	<u>\$ -</u>

The Fund's investments at June 30, 2016 and 2015 include uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name.

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NOTE C – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk: Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its obligations.

As of June 30, 2016 and 2015 the Fund's investments in debt securities (other than U.S. Treasuries) were rated as follows:

Standard & Poor's Rating	2016 Fair Market Value	2015 Fair Market Value
AAA	\$ 211,799	\$ 38,853
AA+	-	529,071
AA	193,439	272,205
AAf	-	36,388
Af	-	68,531
A	562,063	231,346
A+	-	221,032
A-	-	280,169
BBB+	-	115,694
BBB+f	-	42,117
BBB	438,404	-
BB	127,979	-
B	162,463	-
CCC	25,299	-
Not Rated	17,155	-
Total	<u>\$ 1,738,601</u>	<u>\$ 1,835,406</u>

Interest Rate Risk: Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's value. The Fund has maintained its funds in highly liquid investments, but has not adopted a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign currency risk: The Fund was exposed to limited foreign currency risk at June 30, 2016 and not exposed to foreign currency risk at June 30, 2015. The Fund's investment policy includes limitation on investment types that reduces the Fund's exposure to foreign currency risk.

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

	2016	2015
Net realized gains on disposition of investments	\$ 973,952	\$ 135,628
Net unrealized gains (losses)	<u>(1,137,068)</u>	<u>180,798</u>
Total net gains (losses) on investments	<u>\$ (163,116)</u>	<u>\$ 316,426</u>

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NOTE D – PLEDGES RECEIVABLE

Outstanding pledges are reflected in the accompanying financial statements for those promises/pledges to give for which all time and other eligibility requirements have been met as provided for in GASB Statement No. 33. At June 30, 2016 and 2015, pledges receivable were \$244,636 and \$671,605, respectively, and were classified as either short-term or long-term. Long-term pledges included discounts of \$0 and \$0 as of June 30, 2016 and 2015, respectively. The pledges are reported net of an allowance for doubtful accounts of \$612 and \$3,444 as of June 30, 2016 and 2015, respectively.

NOTE E – RELATED PARTY TRANSACTIONS

Effective August 29, 1996, the Fund entered into an agreement with the Illinois Mathematics and Science Academy (Academy), which specifies the relationship between the two organizations. This agreement states that the Fund is a separate corporate entity established primarily for the purpose of benefiting, performing the functions of, and carrying out certain charitable, educational, literary and scientific purposes of the Academy, and to assist the Academy in achieving and furthering its educational, research, and service goals. The Fund has agreed to provide financial support to the Academy (both directly and indirectly) and in exchange, the Academy has agreed to provide office space, equipment and personnel to enable the Fund to accomplish its purposes.

Both organizations acknowledge that State resources should not be used to provide for fundraising activities, which do not result in a value to the Academy of the same or greater value than what the Academy receives directly from the Fund. As long as the Academy receives direct or indirect program support from the Fund, which is greater than the costs the Academy incurs on behalf of the Fund, no reimbursement shall occur. If in any fiscal year those costs are greater than the program support provided to the Academy, the Fund will reimburse the Academy for the excess of the costs over the program support provided. For fiscal years 2016 and 2015, total program support provided to the Academy by the Fund was \$1,370,901 and \$1,272,120. The total costs incurred by the Academy for the Fund were approximately \$202,396 and \$303,141, respectively.

At June 30, 2016 and 2015, accounts receivable due from the Academy was \$66,196 and \$30,095, respectively.

At June 30, 2016 and 2015, contribution advances of \$685,308 and \$192,591, respectively, had been paid to the Academy but were deferred to the following year.

Other Related Parties

The Fund recognized contribution revenue from members of the Fund's Board of Directors and the Academy's Board of Trustees and those members' affiliated corporations and foundations in the amount of \$250,985 and \$45,000 during the years ended June 30, 2016 and 2015, respectively.

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NOTE F – CONTINGENCIES – GRANTS

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

During fiscal year 2016, the Fund met the conditions of a previous \$1,000,000 grant for the creation of a 6,400 square foot laboratory space to serve students in their pursuit of innovation, entrepreneurship, and talent development programming, utilizing a dedicated space equipped with state-of-the-art technology. The \$1,000,000 was recognized as revenue during fiscal year 2016.

NOTE G – INCOME TAXES

IMSA Fund for Advancement of Education is a non-profit organization, which has been granted a tax-exempt status as a public charity under Section 501(c) (3) of the Internal Revenue Code. The Fund is required to pay Federal and State income taxes only on its net unrelated business income. A provision for income taxes was not required for the years ended June 30, 2016 and 2015.

NOTE H – ENDOWMENTS

The Fund's Board established a quasi-endowment fund during the year ended June 30, 2008, with the creation of Stephanie Pace Marshall (SPM) endowment for Innovation and Entrepreneurship. The endowment's principal objectives are the promotion and development of innovation and excellence in achieving the Academy's legislative mandate and strategic mission and objectives, including non-recurring purposes of the Academy not regularly funded by the State of Illinois. During fiscal year 2013 and 2014, the Fund's Board established three board-designated endowments. These endowment's principal objectives are Professional Field Services (PFS), McLaren Faculty Excellence Endowment and Total Applied Learning for Entrepreneurs (TALENT) programs. The balance of the quasi- and board-designated endowment fund as of June 30, 2016 and 2015 was \$4,034,962 and \$4,254,818, respectively. The principal of these endowments will not be expended, and is reported on the Statements of Net Position as "Unrestricted Net Position".

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NOTE H – ENDOWMENTS (CONTINUED)

As permitted by State law, a distribution from investment earnings will be made available for purposes designated by the Fund's Board of Directors from the endowment funds. During fiscal years 2016 and 2015, the Fund's Board of Directors authorized a payment of up to 4%, of the average of the preceding three year balance. The amount approved for expenditure as of December 31, 2015 and 2014 was \$74,065 and \$97,347, respectively. During the fiscal years 2016 and 2015, \$74,065 and \$88,854 of the aforementioned authorized expenditures were made along with investment management fees. Any portion of the annual distributable funds not distributed in any given year will be retained in the Quasi-Endowment Fund in a pool of funds spendable in future years. Net appreciation of Quasi-Endowments was \$896,650 and \$1,081,803 as of June 30, 2016 and 2015, respectively.

Two permanent endowment funds were established pursuant to donors' gifts during the year ended June 30, 2007. Two additional permanent endowment funds were established during the fiscal year ended June 30, 2012. These endowments require the principal to remain intact and are reported on the Statements of Net Position as "Restricted Net Position, Nonexpendable". Net appreciation of donor restricted endowments was \$63,127 and \$69,443 as of June 30, 2016 and 2015, respectively.

All of the endowment and quasi-endowment funds are pooled for investment purposes. Each fund shares proportionally in any recognized or unrecognized capital gains and losses and in any other net earnings generated by those investments. No earnings will be distributed until 12 months after an endowed fund reaches \$20,000.

WASHINGTON, PITTMAN & McKEEVER, LLC

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**INDEPENDENT AUDITOR'S 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 Frank J. Mautino
Auditor General
State of Illinois

And

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

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of the IMSA Fund for Advancement of Education, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise IMSA Fund for Advancement of Education's basic financial statements, and have issued our report thereon dated December 1, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

WASHINGTON, PITTMAN & McKEEVER, LLC

**Chicago, Illinois
December 1, 2016**