

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2007

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

STATE OF ILLINOIS  
THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2007

TABLE of CONTENTS

	<u>Page</u>
Agency Officials	1
Management Assertion Letter	2
Compliance Report	
Summary	4
Auditors' Reports	
Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes	6
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	9
Financial Statement Report	
Summary	11
Independent Auditors' Report	12
Basic Financial Statements	
Governmental Fund Balance Sheets/Statements of Net Assets	14
Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance/Statement of Activities – Year Ended June 30, 2007	15
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities – Year Ended June 30, 2006	16
Notes to Financial Statements	17
Supplementary Information for State Compliance Purposes	
Summary	21
Fiscal Schedules and Analysis	
Comparative Schedule of Revenues and Expenses	22
Analysis of Significant Variations in Revenue	23
Analysis of Significant Variations in Expenses	24
Analysis of Operations	
Functions and Planning Program	25
Statistical Highlights	27

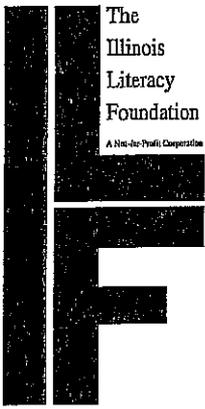
THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

AGENCY OFFICIALS

Ex Officio Director	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
President	Dr. Roberto Castaneda
Vice President	Nikki M. Zollar, Esq.
Treasurer	Anthony Taylor
Secretary	Eugene Mroz

Agency offices are located at:

100 West Randolph Street  
Chicago, IL 60601



# The Illinois Literacy Foundation

J. R. Thompson Center  
P.O. Box 64386  
Chicago, Illinois 60664-0386

## MANAGEMENT ASSERTION LETTER

January 8, 2008

HONORABLE JESSE WHITE  
Secretary of State  
State Librarian  
Ex-Officio Director

Sleeper, Disbrow, Morrison, Tarro & Lively, LLC  
Suite 501, 250 N. Water St.  
Decatur, IL 62523

### BOARD OF DIRECTORS

#### *President*

Dr. Roberto Castaneda

#### *Vice-President*

Nikki Zollar

#### *Secretary*

Eugene Mroz

#### *Treasurer*

Anthony Taylor

Joyce O. Calvert

Caroline Sanchez Crozier

Commissioner Mary Dempsey

Richard Dent

Dr. Frank W. Gardner

Margaret J. O'Connor

#### *Members Emeritus*

Claudia Dunne

John Rosales

Thomas N. Benigno

*Executive Director*

*Deputy Secretary of State*

Gentlemen:

We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the Foundation. We are responsible for and we have established and maintained an effective system of, internal controls over compliance requirements. We have performed an evaluation of the Foundation's compliance with the following assertions during the two-year period ended June 30, 2007. Based on this evaluation, we assert that during the years ended June 30, 2006 and June 30, 2007, the Foundation has materially complied with the assertions below.

A. The Foundation has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.

B. The Foundation has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.

C. The Foundation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.

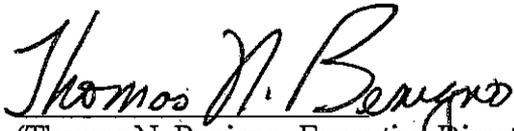
The Mission of the Illinois Literacy Foundation is to partner with the corporate and private sectors to enhance literacy awareness and support literacy programs throughout the State of Illinois. Therefore, in collaboration with corporate and private entities, local businesses and state agencies, the Foundation strives to promote the enjoyment of reading and learning by addressing the literacy needs of the people of Illinois.

D. State revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.

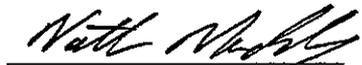
E. Money or negotiable securities or similar assets handled by the Foundation on behalf of the State or held in trust by the Foundation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Illinois Office of the Secretary of State

  
(Thomas N. Benigno, Executive Director)

  
(Greg McCormick, Fiscal Officer)

  
(Nathan Maddox, Legal Counsel)

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

COMPLIANCE REPORT

SUMMARY

For the Years Ended June 30, 2007 and 2006

The compliance testing performed during this examination was conducted in accordance with *Government Auditing Standards* and in accordance with the Illinois State Auditing Act.

ACCOUNTANTS' REPORTS

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers, or other significant non-standard language.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Compliance Report</u>	<u>Financial Report</u>	<u>Prior Compliance Report</u>
Findings	0	0	0
Repeated findings	0	0	0
Prior recommendations implemented or not repeated	0	0	0

SCHEDULE OF FINDINGS

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

There were no current findings and recommendations.

PRIOR FINDINGS NOT REPEATED (*GOVERNMENT AUDITING STANDARDS*)

There were no prior findings.

FINDINGS (*STATE COMPLIANCE*)

There were no current findings and recommendations.

## PRIOR FINDINGS (STATE COMPLIANCE)

There were no prior findings.

## EXIT CONFERENCE

The Illinois Literacy Foundation waived a formal exit conference since the report contained no findings and recommendations.

# SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

ROBERT A. DISBROW, C.P.A.  
THOMAS K. LEACH, C.P.A.  
WAYNE K. LIVELY, C.P.A.  
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MEMBERS  
ILLINOIS C.P.A. SOCIETY  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT ACCOUNTANTS' REPORT ON STATE COMPLIANCE, ON INTERNAL CONTROL OVER COMPLIANCE, AND ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland  
Auditor General  
State of Illinois  
and  
Board of Directors  
The Illinois Literacy Foundation

### Compliance

As Special Assistant Auditors for the Auditor General, we have examined The Illinois Literacy Foundation's (the Foundation), a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2007. The management of the Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Foundation's compliance based on our examination.

- A. The Foundation has obligated, expended, received, and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. The Foundation has obligated, expended, received, and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. The Foundation has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the Foundation on behalf of the State or held in trust by the Foundation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the Foundation's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Foundation's compliance with specified requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements listed in the first paragraph of this report during the two years ended June 30, 2007. There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the Foundation's internal control over compliance with the requirements listed in the first paragraph of this report in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to comply with the requirements listed in the first paragraph of this report such that there is more than a remote likelihood that noncompliance with a requirement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities and the major fund of the Foundation as of and for the years ended June 30, 2007 and 2006, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated January 8, 2008. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Foundation. The 2007 and 2006 Supplementary Information for State Compliance Purposes has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2007 and 2006, taken as a whole. The supplementary information for the year ended June 30, 2005, was audited by other auditors whose report, dated October 26, 2005, expressed an unqualified opinion on such information 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 Secretary of State, and the board of directors and management of the Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

*Sleeper, Disbrow, Morrison, Tarr & Lively, LLC*

Decatur, Illinois  
January 8, 2008

# SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

ROBERT A. DISBROW, C.P.A.  
THOMAS K. LEACH, C.P.A.  
WAYNE K. LIVELY, C.P.A.  
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## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland  
Auditor General  
State of Illinois  
and  
Board of Directors  
The Illinois Literacy Foundation

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities and the major fund of the Illinois Literacy Foundation (the Foundation), a component unit of the State of Illinois, as of and for the years ended June 30, 2007 and June 30, 2006, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated January 8, 2008. 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 Foundation's internal control over financial reporting as a basis for designing our auditing procedures 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 Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Shegan, Disbrow, Morrison, Tarr & Lively, LLC*

Decatur, Illinois  
January 8, 2008

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

FINANCIAL STATEMENT REPORT

SUMMARY

For the Years Ended June 30, 2007 and 2006

The audit of the accompanying financial statements of the Illinois Literacy Foundation was performed by Sleeper, Disbrow, Morrison, Tarro, & Lively, LLC.

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

# SLEEPER, DISBROW, MORRISON, TARRO & LIVELY, LLC

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## INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland  
Auditor General  
State of Illinois  
and  
Board of Directors  
The Illinois Literacy Foundation

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the governmental activities and the major fund of The Illinois Literacy Foundation (the Foundation), a component unit of the State of Illinois, as of and for the years ended June 30, 2007 and June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Foundation as of June 30, 2007 and June 30, 2006, and the changes in financial position thereof for the years 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 January 8, 2008 on our consideration of the Foundation'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 audits.

The Foundation has not presented a management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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, the Secretary of State, and the board of directors and management of the Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

*Sleeper, Disbrow, Morrison, Tarr & Lively, LLC*

Decatur, Illinois  
January 8, 2008

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

GOVERNMENTAL FUND BALANCE SHEETS/STATEMENTS OF NET ASSETS  
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS:		
Cash	\$ <u>39,263</u>	\$ <u>27,142</u>
Total Assets	\$ <u><u>39,263</u></u>	\$ <u><u>27,142</u></u>
FUND BALANCES/NET ASSETS:		
Unreserved/unrestricted	\$ <u>39,263</u>	\$ <u>27,142</u>
Total Net Assets	\$ <u><u>39,263</u></u>	\$ <u><u>27,142</u></u>

The accompanying notes are an integral part of these statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenditures/ Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Literacy Promotion	\$ 211,304	\$ 94,696	\$ (116,608)
General revenues:			
Contributions not restricted to specific programs			128,383
Interest income			346
Total general revenues			<u>128,729</u>
Change in net assets			12,121
Fund balance/net assets - beginning			<u>27,142</u>
Fund balance/net assets - ending			<u><u>\$ 39,263</u></u>

The accompanying notes are an integral part of these statements.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES,  
AND CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenditures/ Expenses</u>	<u>Program revenues Operating grants and contributions</u>	<u>Net (expense) revenue</u>
Literacy Promotion	\$ 318,621	\$ 192,925	\$ <u>(125,696)</u>
General revenues:			
Contributions not restricted to specific programs			118,844
Interest income			<u>201</u>
Total general revenues			<u>119,045</u>
Change in net assets			<u>(6,651)</u>
Fund balance/net assets - beginning			<u>33,793</u>
Fund balance/net assets - ending			<u>\$ 27,142</u>

The accompanying notes are an integral part of these statements.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Illinois Literacy Foundation (the Foundation) was created by State Statute (15 ILCS 322/40) to promote literacy among the residents of the State of Illinois by supporting literacy programs and enhancing Statewide literacy awareness, to make grants and gifts in aid and support of the goal, and to engage generally in other lawful endeavors consistent with the foregoing purposes. The Foundation develops strategies and pioneers test programs that can be implemented at a local level to fill identified gaps in the literacy efforts of the State of Illinois.

B. Financial Reporting Entity

The Foundation's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

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

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

Based upon the required criteria, the Foundation has no component units. However, the Foundation is a component unit of the State of Illinois. Therefore, the financial statements of the Foundation 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.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Presentation

The financial activities of the Foundation, which consist only of governmental activities, are reported as a component unit in the State of Illinois' Comprehensive Annual Financial Report. For its reporting purposes, the Foundation has combined its presentation of the fund financial statements and the government-wide financial statements. There are no differences between the fund financial data and the government-wide data, and therefore, no reconciliation is presented herein. A brief description of the Foundation'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 Foundation. The financial activities of the Foundation consist only of governmental activities, which are primarily supported by public donations.

The statement of activities demonstrates the degree to which the direct expenses of a given function (i.e. general government) are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Foundation's General Fund, utilizing the basis of accounting described in Note 1.D. below.

The Foundation administers the following major governmental fund:

**General Fund --** This is the Foundation's primary operating fund. It accounts for all financial resources of the Foundation. The services administered by the Foundation and accounted for in this fund include the promotion of literacy among the residents of the State of Illinois.

D. 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 Foundation gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, 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.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 Foundation 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.

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.

E. Fund Balances

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

F. Net Assets

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

Unrestricted -- This consists of net assets that do not meet the definition of "restricted", which includes any net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

G. 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 these estimates.

Note 2: DEPOSITS

Custodial credit risk is the risk that, in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation does not have a deposit policy for custodial credit risk. As of June 30, 2007 and 2006, none of the Foundation's bank balances of \$39,262 and \$27,506, respectively, was exposed to custodial credit risk.

THE ILLINOIS LITERACY FOUNDATION

NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

Note 3: INCOME TAXES

The Foundation is a not-for-profit organization and claims exemption from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Service Code and similar provisions of State tax codes.

Note 4: RELATED PARTY TRANSACTIONS

Salaries and wages and the related employee benefits of the Executive Director and his assistants are paid by the State of Illinois Office of the Secretary of State. The Office also provides some administrative expenses for the Foundation.

The amount of financial assistance from the Office to the Foundation for the years ended June 30, 2007 and 2006, was as follows:

	<u>2007</u>	<u>2006</u>
Salaries	\$ 95,916	\$ 91,740
Benefits	<u>29,403</u>	<u>24,956</u>
Subtotal	125,319	116,696
Contractual services	-	-
Travel	307	579
Commodities	121	95
Printing	1,809	1,100
Telecommunications	<u>827</u>	<u>374</u>
 Total	 <u>\$128,383</u>	 <u>\$118,844</u>

The total of \$128,383 and \$118,844 are included in the Statement of Activities as a general revenue and a program expense.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

For the Years Ended June 30, 2007 and 2006

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
  - Comparative Schedule of Revenues and Expenses
  - Analysis of Significant Variations in Revenue
  - Analysis of Significant Variations in Expenses
  
- Analysis of Operations:
  - Functions and Planning Program
  - Statistical Highlights

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied to the audit of the basic financial statements and, in the auditors' opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

THE ILLINOIS LITERACY FOUNDATION  
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COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES

For the Years Ended June 30, 2007, 2006, and 2005

	2007	2006	2005
<b>REVENUE</b>			
Direct public support	\$ 94,696	\$ 192,925	\$ 165,437
Interest	346	201	164
Total revenue	95,042	193,126	165,601
<b>EXPENSES</b>			
Contractual	3,782	6,795	5,012
Travel	342	208	139
Commodities	-	143	103
Program grants	78,797	192,631	162,591
Total expenses	82,921	199,777	167,845
<b>CHANGE IN NET ASSETS</b>	<b>\$ 12,121</b>	<b>\$ (6,651)</b>	<b>\$ (2,244)</b>

Note:

The above comparison does not include the on-behalf payments made by the State of Illinois Office of the Secretary of State.

THE ILLINOIS LITERACY FOUNDATION  
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ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE

For the Years Ended June 30, 2007 and 2006

<u>Fiscal Year 2007</u>	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>Percent Change</u>
Direct public support	\$ 94,696	\$ 192,925	\$(98,229)	-50.92%

The decrease in donations from the Illinois Literacy Campaign, which is run statewide through Borders Books and Music Stores, Borders Outlets and Waldenbooks stores, can be directly linked to the timing of the FY07 campaign versus the prior year. The FY06 campaign was held between November 25 and December 31, 2005, which is the peak retail shopping period each year. The FY07 campaign was held months earlier in the calendar year when few retail shoppers are in stores. Hence, fewer opportunities for donation correlate to fewer total dollars donated for the year of the campaign.

<u>Fiscal Year 2006</u>	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>Percent Change</u>
Direct public support	\$ 192,925	\$ 165,437	\$ 27,488	16.62%

Fiscal year 2006 was the fourth year of the Holiday Literacy Program, which is run through Borders Books and Music Stores, Borders Outlets and Waldenbooks stores. The escalation of public awareness increased revenues associated with the program.

THE ILLINOIS LITERACY FOUNDATION  
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ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENSES

For the Years Ended June 30, 2007 and 2006

<u>Fiscal Year 2007</u>	<u>2007</u>	<u>2006</u>	<u>Difference</u>	<u>Percent Change</u>
Contractual	\$ 3,782	\$ 6,795	\$ (3,013)	-44.34% (1)
Program grants	78,797	192,631	(113,834)	-59.09% (2)

1. Contractual expenses of the IL Literacy Foundation include payment to the Illinois Auditor General for audit fees. There was no fee presented to the Illinois Literacy Foundation prior to June 30, 2007 and so approximately \$3,000 of expenses were not accrued in fiscal year 2007 compared to fiscal year 2006.
2. Program grants for the Illinois Literacy Campaign relate directly to the revenue generated specifically for the campaign each fiscal year. As described in the analysis of revenue variations, the fiscal year 2007 revenue was less than fiscal year 2006. Hence, the correlating decrease in program grant dollars expended to purchase gift certificates from Borders Books and Music Stores to benefit local literacy programs.

<u>Fiscal Year 2006</u>	<u>2006</u>	<u>2005</u>	<u>Difference</u>	<u>Percent Change</u>
Program grants	\$ 192,631	\$ 162,591	\$ 30,040	18.48%

As described above, program grants for the Illinois Literacy Campaign relate directly to the revenue received from the campaign each year. The increase in grants to benefit local literacy programs in FY06 was a result of increased funds provided and available from the FY06 campaign.

THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

ANALYSIS OF OPERATIONS

For the Years Ended June 30, 2007 and 2006

FUNCTIONS AND PLANNING PROGRAM

Foundation Functions

The Illinois Literacy Foundation was created by State Statute (15 ILCS 322/40) to promote literacy among the residents of the State of Illinois by supporting literacy programs and enhancing Statewide literacy awareness, to make grants and gifts in aid and support of the goal, and to engage generally in other lawful endeavors consistent with the foregoing purposes.

The Secretary of State serves as ex officio director of the Foundation. There shall be not less than six nor more than eleven directors of the Foundation. Following is a list of directors of the Foundation as of June 30, 2007.

Secretary of State Jesse White  
(Ex Officio Director)  
Chicago, IL

Mary Dempsey  
Chicago Public Library  
Chicago, IL

Dr. Roberto R. Castaneda (President)  
Chicago, IL

Richard Dent  
First Communications  
Chicago, IL

Nikki M. Zollar (Vice-President)  
Triad Consulting Services, Inc.  
Chicago, IL

Caroline Sanchez Crozier  
CEO/President CS&C, Inc.  
Chicago, IL

Eugene Mroz (Secretary)  
Chicago, IL

Joyce O. Calvert  
DuQuoin, IL

Anthony Taylor (Treasurer)  
Coca-Cola Bottling Company  
Niles, IL

Dr. Frank W. Gardner  
Chicago, IL

Cindy Pritzker (Member Emeritus)  
Chicago, IL

Margaret J. O'Connor  
Owner, MarCon Communications  
Chicago, IL

Foundation Functions – Continued

Wanda Rednour (Member Emeritus)  
DuQuoin, IL

John Rosales (Member Emeritus)  
Coca-Cola Enterprises  
Chicago, IL

Claudia Dunne (Member Emeritus)  
Chicago, IL

Thomas N. Benigno (Exec. Director)  
Chicago, IL

Planning Program

The Foundation has adopted a Mission Statement and Guiding Principles as follows:

MISSION STATEMENT

The mission of The Illinois Literacy Foundation (the Foundation) is to partner with the corporate and private sectors to enhance literacy awareness and support literacy programs throughout the State of Illinois.

Therefore, in collaboration with corporate and private entities, local businesses and state agencies, the Foundation strives to promote enjoyment in reading and learning by addressing the literacy needs of the people of Illinois.

GUIDING PRINCIPLES

- \* The Foundation will act as a “Transfer Agent” to supplement, coordinate and reinforce existing literacy activities.
- \* The Foundation efforts should focus on innovative programs that emphasize corporate involvement.
- \* The Foundation efforts should tackle problems in a comprehensive, “systemic” fashion that stresses prevention.
- \* The Foundation will seek sponsorship and support from the private sector for programs within local communities.
- \* The Foundation recognizes there is no single solution to illiteracy and that diverse solutions need to be developed for local implementation.
- \* The Foundation efforts will not duplicate other literacy activities.
- \* The Foundation will work in cooperation and partnership with other literacy agencies.
- \* The Foundation will develop guidelines for awarding grants and contracts as well as a framework for reporting results so that the information can be used to enhance other local programs.

The Foundation office for the two years ended June 30, 2007, was located at the J.R. Thompson Center in Chicago, Illinois.

THE ILLINOIS LITERACY FOUNDATION  
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STATISTICAL HIGHLIGHTS

For the Years Ended June 30, 2007 and 2006

<u>Statistics</u>	<u>2007</u>	<u>2006</u>
<b>REVENUE</b>		
Direct public support	\$ 94,696	\$ 192,925
Interest	346	201
<b>Total revenue</b>	<u>95,042</u>	<u>193,126</u>
<b>EXPENSES</b>		
Contractual	3,782	6,795
Travel	342	208
Commodities	0	143
Program grants	78,797	192,631
<b>Total expenses</b>	<u>82,921</u>	<u>199,777</u>
<b>CHANGE IN NET ASSETS</b>	12,121	(6,651)
<b>NET ASSETS, BEGINNING</b>	<u>27,142</u>	<u>33,793</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 39,263</u>	<u>\$ 27,142</u>

**Illinois Literacy Campaign**

Number of Borders Books and Music, Borders Outlets, and Waldenbooks stores participating statewide	66	57
Number of recipients of campaign contribution	75	62
Contributions and distributions for campaign	\$ 91,035	\$ 191,031
Average contributions per store	\$ 1,379	\$ 3,353
Average contributions per recipient	\$ 1,214	\$ 3,081

Ex Officio Director

Honorable Jesse White, Secretary of State