

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

FINANCIAL AUDIT AND COMPLIANCE  
EXAMINATION

For the Two Years Ended June 30, 2013

Performed as Special Assistant Auditors  
for the Auditor General, 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, 2013

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

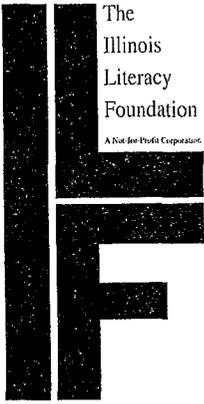
AGENCY OFFICIALS

For the Two Years Ended June 30, 2013

Ex Officio Director	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
President	Anthony Taylor
Vice President	Caroline Sanchez Crozier
Treasurer	Dr. Roberto R. Castaneda
Secretary	Heather Bookstaver
Fiscal Officer	Greg McCormick

Foundation offices are located at:

100 West Randolph Street  
Chicago, IL 60601



# The Illinois Literacy Foundation

James R. Thompson Center  
P.O. Box 64386  
Chicago, Illinois 60664-0386  
[www.theillinoisliteracyfoundation.org](http://www.theillinoisliteracyfoundation.org)

## MANAGEMENT ASSERTION LETTER

HONORABLE JESSE WHITE

*Secretary of State  
State Librarian  
Ex-Officio Director*

### BOARD OF DIRECTORS

#### *President*

Anthony Taylor

#### *Vice-President*

Caroline Sanchez Crozier

#### *Treasurer*

Dr. Roberto Castaneda

#### *Secretary*

Heather Bookstaver

George Burciaga

Sunny Chico

Richard Dent

Roderick Hawkins

Michael C. Mroz

Crystal Reynolds

Nikki Zollar

Thomas N. Benigno

*Executive Director*

*Deputy Secretary of State/  
Chief of Staff*

February 13, 2014

Kerber, Eck and Braeckel LLP

1000 Myers Building

Springfield, IL 62701

Ladies and 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 Illinois Literacy 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, 2013. Based on this evaluation, we assert that during the years ended June 30, 2013 and June 30, 2012, 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.
- 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.

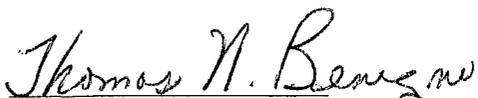


The Mission of The Illinois Literacy Foundation is to partner with the corporate and private sectors to enhance literacy awareness and support literacy programs throughout the State of Illinois. Therefore, in collaboration with corporate and private entities, local businesses and state agencies, the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

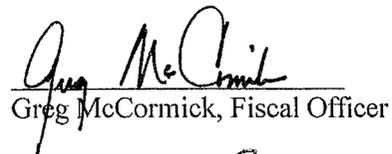
E. Money or negotiable securities or similar assets handled by the Foundation on behalf of the State or held in trust by the Foundation have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours truly,

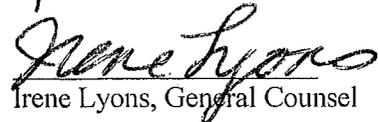
The Illinois Literacy Foundation



Thomas N. Benigno, Executive Director



Greg McCormick, Fiscal Officer



Irene Lyons, General Counsel

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

COMPLIANCE REPORT

For the Two Years Ended June 30, 2013

SUMMARY

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

ACCOUNTANT'S REPORTS

The Independent Accountant's 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>Current</u>	<u>Prior</u>
Findings	0	0
Repeated findings	0	0
Prior recommendations implemented or not repeated	0	0

SCHEDULE OF FINDINGS

<u>Item No.</u>	<u>Page</u>	<u>Description</u>	<u>Finding Type</u>
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FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

There were no current findings and recommendations.

FINDINGS (*STATE COMPLIANCE*)

There were no current findings and recommendations.

PRIOR FINDINGS NOT REPEATED

There were no prior findings.

EXIT CONFERENCE

The Illinois Literacy Foundation waived an exit conference in correspondence dated January 28, 2014.



INDEPENDENT ACCOUNTANT'S REPORT ON STATE COMPLIANCE AND  
ON INTERNAL CONTROL OVER COMPLIANCE

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 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, 2013. The management of the Illinois Literacy Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Illinois Literacy Foundation's compliance based on our examination.

- A. The Illinois Literacy 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 Illinois Literacy 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 Illinois Literacy 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 Illinois Literacy 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 Illinois Literacy Foundation on behalf of the State are held in trust by the Illinois Literacy Foundation have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with the law.

Our examination was conducted 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 Illinois Literacy 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 Illinois Literacy Foundation's compliance with specified requirements.

In our opinion, the Illinois Literacy Foundation complied, in all material respects, with the compliance requirements listed in the first paragraph of this report during the two years ended June 30, 2013.

### **Internal Control**

Management of the Illinois Literacy 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 Illinois Literacy Foundation's internal control over compliance with the requirements listed in the first paragraph of this report to determine the examination procedures that are appropriate in the circumstances 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 Illinois Literacy Foundation's internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Illinois Literacy Foundation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with the requirements listed in the first paragraph of this report on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

There were no immaterial findings that have been excluded from this report.

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 management of the Illinois Literacy Foundation, and is not intended to be and should not be used by anyone other than these specified parties.

*Kuhn, Eck & Brueckel LLP*

Springfield, Illinois  
February 13, 2014

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 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, 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 governmental activities and major fund of the Illinois Literacy Foundation, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Illinois Literacy Foundation's basic financial statements, and have issued our report thereon dated February 13, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Illinois Literacy Foundation'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Illinois Literacy Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Illinois Literacy Foundation'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 Illinois Literacy Foundation'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 Illinois Literacy Foundation'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 Illinois Literacy Foundation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kemper, Eck & Brantel LLP*

Springfield, Illinois  
February 13, 2014

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

FINANCIAL STATEMENT REPORT

For the Two Years Ended June 30, 2013

**Summary**

The audit of the accompanying financial statements of the Illinois Literacy Foundation was performed by Kerber, Eck, & Braeckel LLP.

Based on their audit, the auditors expressed unmodified opinions on the agency's basic financial statements.



## INDEPENDENT AUDITOR'S REPORT

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities and the major fund of the Illinois Literacy Foundation, a component unit of the State of Illinois, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Illinois Literacy Foundation'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 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 audits 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.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Illinois Literacy Foundation, as of June 30, 2013 and 2012, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Management has omitted management's discussion and analysis and budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinions on the basic financial statements are not affected by this missing information.

#### *Other Information*

Our audits for the years ended June 30, 2013 and 2012, were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Illinois Literacy Foundation's basic financial statements. The accompanying supplementary information in the State Compliance Schedules 1 through 3 and the Analysis of Operations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information for the years ended June 30, 2013 and 2012 in the State Compliance Schedules 1 through 3 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying supplementary information for the years ended June 30, 2013 and 2012, in the State Compliance Schedules 1 through 3 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information for the years ended June 30, 2013 and 2012, in the State Compliance Schedules 1 through 3 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Illinois Literacy Foundation's basic financial statements for the year ended June 30, 2011 (not presented herein) were audited by other auditors whose report thereon dated February 8, 2012, expressed unmodified opinions on the respective financial statements of the governmental activities and major fund. The report of the other auditors dated February 8, 2012, stated that the supplementary information in the State Compliance Schedules 1 through 3 for the year ended June 30, 2011, was subjected to the auditing procedures applied in the audit of the 2011 basic financial statements and certain additional auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America, and, in their opinion, was fairly stated in all material respects in relation to the basic financial statements as a whole for the year ended June 30, 2011.

The accompanying information in the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any other assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2014, on our consideration of the Illinois Literacy 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 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 Illinois Literacy Foundation's internal control over financial reporting and compliance.

#### **Restricted Use of this Auditor's Report**

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 Illinois Literacy Foundation and is not intended to be and should not be used by anyone other than these specified parties.

*Kuhn, Eck & Brueckel LLP*

Springfield, Illinois  
February 13, 2014

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

GOVERNMENTAL FUND BALANCE SHEETS/STATEMENTS OF NET POSITION

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS:		
Cash	<u>\$ 23,992</u>	<u>\$ 26,214</u>
Total assets	<u>\$ 23,992</u>	<u>\$ 26,214</u>
 FUND BALANCE/NET POSITION:		
Assigned/Unrestricted	<u>\$ 23,992</u>	<u>\$ 26,214</u>
Total fund balance/net position	<u>\$ 23,992</u>	<u>\$ 26,214</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, 2013

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenditures/ Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Illinois Literacy Foundation	\$ 85,057	\$ 358	\$ (84,699)
General revenues:			
Contributions not restricted to specific programs			82,444
Interest income			33
Total general revenues			<u>82,477</u>
Change in net position			<u>(2,222)</u>
Fund balance/Net position - beginning			<u>26,214</u>
Fund balance/Net position - ending			<u><u>\$ 23,992</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, 2012

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenditures/ Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Illinois Literacy Foundation	\$ 81,784	\$ 575	\$ (81,209)
General revenues:			
Contributions not restricted to specific programs			79,587
Interest income			43
Total general revenues			<u>79,630</u>
Change in net position			<u>(1,579)</u>
Fund balance/Net position - beginning			<u>27,793</u>
Fund balance/Net position - ending			<u><u>\$ 26,214</u></u>

The accompanying notes are an integral part of these statements.

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2013 and 2012

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 specific financial benefits to, or impose specific financial burdens on, the primary government; or,
- 2) Fiscal dependency on the primary government and there is the potential for the component unit to provide specific financial benefits to, or impose specific financial burdens 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.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Presentation

For 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 position 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 that are administered by the Foundation and accounted for in this fund include the promotion of literacy among the residents of the State of Illinois.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 recognized 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.

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.

E. Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the Foundation is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable - The nonspendable fund balance category includes amounts that cannot be spent because they are not in a spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Fund Balance - Continued

Committed - The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action of the State legislature and signed into law by the governor. Those committed amounts cannot be used for any other purpose unless the State legislature and governor removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance classification may be redeployed for other purposes with appropriate due process.

Assigned - Amounts in the assigned fund balance classification are intended to be used by the Foundation for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by the State legislature.

Unassigned - The unassigned fund balance classification is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Foundation applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

F. Net Position

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 position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 those estimates.

H. New Accounting Pronouncements

Effective for the year ending June 30, 2012, the Foundation adopted GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position, which establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. There was no significant impact on the Foundation's financial statements as a result of adopting this statement.

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, 2013 and 2012, none of the Foundation's bank balances of \$ 23,992 and \$ 26,214, respectively, was exposed to custodial credit risk.

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.

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 (Office) and are not reported in the financial statements of the Foundation. The Office also provides office space, equipment, and some administrative expenses for the Foundation.

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

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2013 and 2012

4. RELATED PARTY TRANSACTIONS - Continued

The amount of financial assistance from the Office to the Foundation for the years ended June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Salaries	\$ 52,147	\$ 51,630
Benefits	<u>29,290</u>	<u>27,677</u>
Subtotal	81,437	79,307
Travel	672	-
Commodities	171	110
Telecommunications	<u>164</u>	<u>170</u>
Total	<u>\$ 82,444</u>	<u>\$ 79,587</u>

The total of \$ 82,444 and \$ 79,587 are included in the Statements of Activities as a General Administrative revenue and expense.

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SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

For the Years Ended June 30, 2013 and 2012

SUMMARY

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 (unaudited):
  - Functions and Planning Program (unaudited)

The accountant's 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 auditor's opinion, it is fairly stated, in all material respects, in relation to the basic financial statements as a whole from which it has been derived. The accountant's report also states the Analysis of Operations Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, they do not express an opinion or provide any assurance on it.

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COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES

For the Years Ended June 30, 2013, 2012, and 2011

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>REVENUE</b>			
Direct public support	\$ 358	\$ 575	\$ 44,609
Interest	33	43	63
	<u>391</u>	<u>618</u>	<u>44,672</u>
<b>EXPENSES</b>			
Contractual	731	795	6,108
Travel	283	1,402	1,033
Commodities	499	-	-
Printing	-	-	1,114
Program grants	1,100	-	41,714
	<u>2,613</u>	<u>2,197</u>	<u>49,969</u>
<b>CHANGE IN NET POSITION</b>	<u>\$ (2,222)</u>	<u>\$ (1,579)</u>	<u>\$ (5,297)</u>

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

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ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE

For the Years Ended June 30, 2013 and 2012

<u>Fiscal Year 2013</u>	<u>2013</u>	<u>2012</u>	<u>Difference</u>	<u>Percent Change</u>
Direct Public Support	\$358	\$575	(\$217)	(37.7%)
<u>Fiscal Year 2012</u>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>Percent Change</u>
Direct Public Support	\$575	\$44,609	(\$44,034)	(98.6%)

The Foundation has historically partnered with a chain of retail book stores in conducting its annual Illinois Literacy Campaign. The campaign was the primary source of donations through fiscal year 2011. The large decrease in public support in fiscal years 2012 and 2013 was due to the main contributor, a bookstore chain, going out of business.

THE ILLINOIS LITERACY FOUNDATION  
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ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENSES

For the Years Ended June 30, 2013 and 2012

<u>Fiscal Year 2013</u>	<u>2013</u>	<u>2012</u>	<u>Difference</u>	<u>Percent Change</u>	
Contractual	\$731	\$795	(\$64)	(8.0%)	(1)
Travel	283	1,402	(1,119)	(79.8%)	(2)
Commodities	499	-	499	100.0%	(3)
Program Grants	1,100	-	1,100	100.0%	(5)
<u>Fiscal Year 2012</u>	<u>2012</u>	<u>2011</u>	<u>Difference</u>	<u>Percent Change</u>	
Contractual	\$795	\$6,108	(\$5,313)	(86.9%)	(1)
Travel	1,402	1,033	369	35.7%	(2)
Printing	-	1,114	(1,114)	(100.0%)	(4)
Program Grants	-	41,714	(41,714)	(100.0%)	(5)

- (1) Contractual cost variations are primarily due to an audit expense fee of \$ 4,367 paid to the Illinois Auditor General in fiscal year 2011 that was subsequently waived in the ensuing fiscal year. Other expense variations are directly associated with the donation activity that was curtailed after fiscal year 2011 due to the closing of the bookstore chain that was the main contributor. Increased banking fees from fiscal year 2012 to fiscal year 2013 cause the modest change/increase in annualized costs.
- (2) Travel expense variation between fiscal years is directly related to in-person attendance at Illinois Literacy Foundation board meetings in Chicago and reimbursement requests that are made for those meetings. If meeting participation is via conference call, there is no reimbursement request filed.

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ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENSES - CONTINUED

For the Years Ended June 30, 2013 and 2012

- (3) Commodity costs increased in fiscal year 2013 as a result of obtaining a supply of book bags with the Illinois Literacy Foundation logo.
- (4) Printing costs associated with the main contributor donation activity did not recur after fiscal year 2011 due to curtailment of the program.
- (5) Program grants given in fiscal year 2011 from the bookstore chain donation program did not recur due to the closure of the bookstore chain, which was the main contributor. In fiscal year 2013, the board offered new stipend grants to individuals that were not previously distributed.

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

ANALYSIS OF OPERATIONS  
(unaudited)

For the Years Ended June 30, 2013 and 2012

FUNCTIONS AND PLANNING PROGRAM

Foundation Functions

The Illinois Literacy Foundation (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, 2013.

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

Sunny Chico  
Chicago, IL

Deputy Secretary of State/Chief of Staff  
Thomas Benigno (Executive Director)  
Chicago, IL

Richard Dent  
Chicago, IL

Anthony Taylor (President)  
Naperville, IL

Roderick Hawkins  
Chicago, IL

Caroline Sanchez Crozier (Vice-President)  
Summit, IL

Michael C. Mroz  
Arlington Heights, IL

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

Crystal M. Reynolds  
Downers Grove, IL

Heather Bookstaver (Secretary)  
DuQuoin, IL

Nikki M. Zollar  
Chicago, IL

George Burciaga  
Chicago, IL

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

ANALYSIS OF OPERATIONS - CONTINUED  
(unaudited)

For the Years Ended June 30, 2013 and 2012

FUNCTIONS AND PLANNING PROGRAM

Planning Program

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

MISSION STATEMENT

The mission of The Illinois Literacy Foundation (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 business 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 ILLINOIS LITERACY FOUNDATION  
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ANALYSIS OF OPERATIONS - CONTINUED  
(unaudited)

For the Years Ended June 30, 2013 and 2012

FUNCTIONS AND PLANNING PROGRAM

Planning Program - continued

- 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, 2013, was located at the J.R. Thompson Center in Chicago, Illinois.