

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017

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, 2017

TABLE OF CONTENTS

	<u>Schedule</u>	<u>Page</u>
Agency Officials		1
Management Assertion Letter		2
Compliance Report:		
Summary		4
Independent Accountant’s Report on State Compliance and on Internal Control Over Compliance		6
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 <i>Government Auditing Standards</i>		9
Schedule of Findings		
Current Findings – <i>Government Auditing Standards</i>		11
Financial Statement Report:		
Summary		13
Independent Auditor’s Report		14
Basic Financial Statements		
Governmental Fund Balance Sheets/Statements of Net Position Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance/Statement of Activities - Year Ended June 30, 2017		17 18
Statement of Governmental Fund Revenues, Expenditures, and Change in Fund Balance/Statement of Activities - Year Ended June 30, 2016		19
Notes to Financial Statements		20
Supplementary Information for State Compliance Purposes:		
Summary		26
Fiscal Schedules and Analysis		
Comparative Schedule of Revenues and Expenses	1	27
Analysis of Operations (unaudited)		
Functions and Planning Program (unaudited)		28
Analysis of Significant Variations in Revenue (unaudited)		31
Analysis of Significant Variations in Expenses (unaudited)		32

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017

AGENCY OFFICIALS

Ex Officio Director	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
President	Michael C. Mroz
Treasurer	Dr. Roberto R. Castaneda
Secretary	Heather Bookstaver
Fiscal Officer	Greg McCormick

Foundation office is located at:

100 West Randolph Street
Chicago, IL 60601



The
Illinois
Literacy
Foundation

Jesse White
*Secretary of State
State Librarian*

Thomas N. Benigno
Executive Director

The Illinois Literacy Foundation

James R. Thompson Center

P.O. Box 64386

Chicago, Illinois 60664-0386

www.theillinoisliteracyfoundation.org

December 27, 2017

Kerber, Eck and Braeckel, LLP
3200 Robbins Road
Suite 200A
Springfield, IL 62704

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 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, 2017. Based on this evaluation, we assert that during the years ended June 30, 2017 and June 30, 2016, 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 record keeping 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 very truly,

Illinois Literacy Foundation

SIGNED ORIGINAL ON FILE

Thomas N. Benigno, Executive Director

SIGNED ORIGINAL ON FILE

Greg McCormick, Fiscal Officer

SIGNED ORIGINAL ON FILE

Irene Lyons, General Counsel

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017

COMPLIANCE REPORT

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 and on Internal Control Over Compliance does not contain scope limitations, disclaimers, or other significant non-standard language, but does contain a material weakness over internal controls.

SUMMARY OF FINDINGS

<u>Number of</u>	<u>Current</u>	<u>Prior</u>
Findings	1	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>
-----------------	-------------	--------------------	---------------------

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

2017-001	11	Failure to Identify Financial Statement Report Error	Material Weakness
----------	----	--	-------------------

FINDINGS (*STATE COMPLIANCE*)

In addition, the finding reported above relating to <i>Government Auditing Standards</i> also met the reporting requirements for State Compliance.	Material Weakness and Noncompliance
--	-------------------------------------

PRIOR FINDINGS NOT REPEATED

There were no prior findings.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017

COMPLIANCE REPORT

SUMMARY - Continued

EXIT CONFERENCE

The Illinois Literacy Foundation waived an exit conference in correspondence dated December 13, 2017.

The response to the recommendation was provided by Shawn Reardon in correspondence dated December 12, 2017.



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

Honorable Frank J. Mautino
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, 2017. 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 or 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 (The Audit Guide). Those standards, the Act, and the Audit Guide require that we plan and perform the examination to obtain reasonable assurance about whether the Illinois Literacy Foundation complied, in all material respects, with the specified requirements listed above. An examination involves performing procedures to obtain evidence about whether the Illinois Literacy Foundation complied with the specified requirements listed above. The nature, timing and extent of the procedures selected depend on our judgement, including an assessment of the risks of material noncompliance, whether due to fraud or error.

We believe that the evidence we obtained is sufficient and appropriate to provide 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, 2017. However, the results of our procedures disclosed an instance of noncompliance with the requirements, which is required to be reported in accordance with criteria established by the Audit Guide, issued by the Illinois Office of the Auditor General and which is described in the accompanying schedule of findings as item 2017-001.

The Illinois Literacy Foundation's response to the finding identified in our examination is described in the accompanying schedule of findings. The Illinois Literacy Foundation's response was not subjected to the procedures applied in the compliance examination and, accordingly, we express no opinion on the response.

The purpose of this report on compliance is solely to describe the scope of our testing and the results of that testing in accordance with the requirements of the Audit Guide issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings as item 2017-001, that we consider to be a material weakness.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Audit Guide, issued by the Illinois Office of the Auditor General. Accordingly, this report is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
December 27, 2017



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
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, 2017 and 2016, 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 December 27, 2017.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as item 2017-001 that we consider to be a material weakness.

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*.

The Illinois Literacy Foundation's Response to Finding

The Illinois Literacy Foundation's response to the finding identified in our audit is described in the accompanying schedule of findings. The Illinois Literacy Foundation's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
December 27, 2017

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS
For the Two Years Ended June 30, 2017

CURRENT FINDINGS - Government Auditing Standards

2017-001 Finding: Failure to Identify Financial Statement Report Error

The Illinois Literacy Foundation (Foundation) did not identify a required adjustment necessary to ensure the Foundation's audited financial statements were accurately presented in accordance with generally accepted accounting principles (GAAP).

The Foundation's financial statements were adjusted for a reporting error identified during our audit. A correction was made to increase the contributed services revenue and expense on the Statement of Governmental Fund Revenues, Expenditures & Change in Fund Balance/Statement of Activities. The Foundation employs a contractual worker to service the Foundation in all capacities necessary. The salary and benefits of this employee are paid for by the Office of the Secretary of State. Not recording these transactions resulted in an understatement of contributed services revenue and expense of \$ 2,181 and \$ 16,331 for fiscal years 2016 and 2017, respectively.

The Illinois Office of the Comptroller requires State agencies, in certain cases, to prepare GAAP basis financial statements to assist in the annual preparation of the Statewide financial statements and provide adequate audit coverage of those statements. GAAP reporting instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27.

In addition, The Fiscal Control and Internal Auditing Act (Act) (30 ILCS 10/3001) requires State agencies to establish and maintain a system of fiscal internal and administrative controls to provide assurance that revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources. Good internal control procedures require adequate management oversight and review of accounting policies and procedures as well as an overall review of financial reporting for accuracy and compliance with generally accepted accounting principles.

Foundation officials stated the item noted above represented an oversight. The Foundation's records accurately accounted for the above noted item; however, the financial statements as originally prepared contained this error.

Failure to implement the appropriate internal control procedures over financial reporting could lead to future misstatements of the Foundation's financial statements. (Finding Code No. 2017-001)

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
SCHEDULE OF FINDINGS - CONTINUED
For the Two Years Ended June 30, 2017

CURRENT FINDINGS - Government Auditing Standards - continued

2017-001 Finding: Failure to Identify Financial Statement Report Error - continued

Recommendation

We recommend the Foundation implement internal control procedures to assess the risk of material misstatements of the Foundation's financial statements and to identify such misstatements during the financial statement preparation process.

Agency Response

The Foundation accepts and has addressed the deficiency described in this finding.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION
For the Two Years Ended June 30, 2017

FINANCIAL STATEMENT REPORT

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.



CPAs and
Management Consultants

3200 Robbins Rd.
Springfield, IL 62704-6525
ph 217.789.0960
fax 217.789.2822
www.kebcpa.com

INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
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, 2017 and 2016, 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 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.

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, 2017 and 2016, 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, 2017 and 2016, 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 Schedule 1 and the Analysis of Operations is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information for the years ended June 30, 2017 and 2016 in the State Compliance Schedule 1 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, 2017 and 2016, in the State Compliance Schedule 1 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, 2017 and 2016, in the State Compliance Schedule 1 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also previously audited, in accordance with auditing standards generally accepted in the United States of America, the Illinois Literacy Foundation's basic financial statements as of and for the year ended June 30, 2015 (not presented herein), and have issued our report thereon dated December 7, 2015, which contained unmodified opinions on the respective financial statements of the governmental activities, and each major fund. The accompanying supplementary information for the year ended June 30, 2015 in Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the June 30, 2015 financial statements. The accompanying supplementary information for the year ended June 30, 2015 in Schedule 1 has been subjected to the auditing procedures applied in the audit of the June 30, 2015 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare those basic financial statements or to those 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 year ended June 30, 2015 in Schedule 1 is fairly stated in all material respects in relation to the basic financial statements as a whole from which it has been derived.

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 December 27, 2017, 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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
December 27, 2017

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

GOVERNMENTAL FUND BALANCE SHEETS/STATEMENTS OF NET POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS:		
Cash	<u>\$ 18,327</u>	<u>\$ 22,834</u>
Total Assets	<u><u>\$ 18,327</u></u>	<u><u>\$ 22,834</u></u>
FUND BALANCE/NET POSITION:		
Assigned/Unrestricted	\$ 16,827	\$ 22,834
Restricted	<u>1,500</u>	<u>-</u>
Total Fund Balance/Net Position	<u><u>\$ 18,327</u></u>	<u><u>\$ 22,834</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
& CHANGE IN FUND BALANCE/STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants</u> <u>and</u> <u>Contributions</u>	<u>Net</u> <u>(Expense)</u> <u>Revenue</u>
Illinois Literacy Foundation	\$ 23,560	\$ 2,712	\$ (20,848)
General revenues:			
Contributions not restricted to specific programs			16,331
Interest income			10
Total general revenues			<u>16,341</u>
Change in net position			<u>(4,507)</u>
Fund Balance/Net Position - beginning			22,834
Fund Balance/Net Position - ending			<u><u>\$ 18,327</u></u>

The accompanying notes are an integral part of this statement.

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

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

For the Year Ended June 30, 2016

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program Revenues</u> <u>Operating Grants</u> <u>and</u> <u>Contributions</u>	<u>Net</u> <u>(Expense)</u> <u>Revenue</u>
Illinois Literacy Foundation	\$ 2,761	\$ 70	\$ (2,691)
General revenues:			
Contributions not restricted to specific programs			2,181
Interest income			12
Total general revenues			<u>2,193</u>
Change in net position			<u>(498)</u>
Fund Balance/Net Position - beginning			<u>23,332</u>
Fund Balance/Net Position - ending			<u><u>\$ 22,834</u></u>

The accompanying notes are an integral part of this statement.

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

NOTES TO FINANCIAL STATEMENTS

For the Two Years Ended June 30, 2017 and 2016

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. Directors of the Foundation's Board are appointed by the Secretary of State of Illinois, who also has the authority to remove said Directors. In addition, the Secretary of State adopts rules and regulations necessary to govern Foundation procedures.

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
(A Component Unit of the State of Illinois)

NOTES TO FINANCIAL STATEMENTS - Continued

For the Two Years Ended June 30, 2017 and 2016

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 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.

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

For the Two Years Ended June 30, 2017 and 2016

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 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.

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.

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

NOTES TO FINANCIAL STATEMENTS - Continued

For the Two Years Ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Fund Balance - Continued

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.

Committed – Committed fund balances are self-imposed limitations approved by the Foundation’s Board of Directors, which is the highest level of decision-making authority within the Foundation. Only the Board of Directors can remove or change the constraints placed on committed fund balances.

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 the unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

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

NOTES TO FINANCIAL STATEMENTS - Continued

For the Two Years Ended June 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Net Position

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

Unrestricted – This consists of net position that does 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.

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State’s policy to use restricted resources first, then unrestricted resources when they are needed. As of June 30, 2017, \$ 1,500 is restricted by a grant agreement.

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. Accounting Pronouncements

Effective for the year ended June 30, 2016, the Foundation adopted GASB Statement No. 72 – *Fair Value Measurement and Application*. The implementation of this statement had no impact on the Foundation’s financial statements.

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, 2017, and 2016, none of the Foundation’s bank balances of \$ 18,327 and \$ 22,834, respectively, was exposed to custodial credit risk.

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

NOTES TO FINANCIAL STATEMENTS - Continued

For the Two Years Ended June 30, 2017 and 2016

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 amount of financial assistance from the Office to the Foundation for the years ended June 30, 2017 and 2016, was as follows:

	<u>2017</u>	<u>2016</u>
Contractual Services	\$ 15,278	\$ 1,788
Travel	270	-
Commodities	406	34
Telecommunications	<u>377</u>	<u>359</u>
Total	<u>\$ 16,331</u>	<u>\$ 2,181</u>

The totals of \$ 16,331 and \$ 2,181 are included in the Statements of Activities as a General Administrative revenue and expense.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
FINANCIAL AUDIT AND COMPLIANCE EXAMINATION

For the Two Years Ended June 30, 2017

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

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 Operations (unaudited):
 Functions and Planning Program (unaudited)
 Analysis of Significant Variations in Revenue (unaudited)
 Analysis of Significant Variations in Expenses (unaudited)

The auditor's report that covers the Supplementary Information for State Compliance Purposes presented in the Financial Statement Report Section states that it has been subjected to the auditing procedures applied in 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 auditor'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.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES
For the Years Ended June 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUE			
Direct public support	\$ 2,712	\$ 70	\$ 306
Interest	<u>10</u>	<u>12</u>	<u>23</u>
Total revenue	<u>2,722</u>	<u>82</u>	<u>329</u>
EXPENSES			
Contractual	2,644	580	818
Travel	412	-	269
Commodities	3,567	-	-
Equipment	<u>606</u>	<u>-</u>	<u>-</u>
Total expenses	<u>7,229</u>	<u>580</u>	<u>1,087</u>
CHANGE IN NET POSITION	<u>\$ (4,507)</u>	<u>\$ (498)</u>	<u>\$ (758)</u>

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
(A Component Unit of the State of Illinois)
ANALYSIS OF OPERATIONS
(unaudited)
For the Two Years Ended June 30, 2017

FUNCTIONS AND PLANNING PROGRAM (unaudited)

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. The following is a list of directors of the Foundation as of June 30, 2017.

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

Richard Dent
Chicago, IL

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

John Rosales
Chicago, IL

Michael C. Mroz (Chairperson)
Arlington Heights, IL

Crystal Reynolds
Chicago, IL

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

Heather Bookstaver (Secretary)
DuQuoin, IL

Carolyn Anthony
Skokie, IL

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
ANALYSIS OF OPERATIONS (unaudited) - CONTINUED
For the Two Years Ended June 30, 2017

FUNCTIONS AND PLANNING PROGRAM (unaudited) - CONTINUED

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
(A Component Unit of the State of Illinois)
ANALYSIS OF OPERATIONS (unaudited) - CONTINUED
For the Two Years Ended June 30, 2017

FUNCTIONS AND PLANNING PROGRAM (unaudited) - CONTINUED

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 ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
ANALYSIS OF OPERATIONS (unaudited) - CONTINUED
For the Two Years Ended June 30, 2017 and 2016

ANALYSIS OF SIGNIFICANT VARIATIONS IN REVENUE (unaudited)

The following are explanations of variations in revenue which exceed 20% or more as compared to the prior year:

<u>Fiscal Year 2017</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>Percent Change</u>	
Direct Public Support	\$ 2,712	\$ 70	\$ 2,642	3,774%	(1)
<u>Fiscal Year 2016</u>	<u>2016</u>	<u>2015</u>	<u>Difference</u>	<u>Percent Change</u>	
Direct Public Support	\$ 70	\$ 306	(\$ 236)	(77%)	(2)
Interest	\$12	\$ 23	(\$ 11)	(48%)	(3)

(1) This increase is mainly due to two items; the first is a grant received by the Dollar General Literacy Foundation for \$1,500 and the second is a luncheon for which the Foundation sold tickets resulting in \$1,150 of revenue.

(2) This decrease is due to a lack of donations to the Illinois Literacy Foundation from the general public.

(3) This decrease is due to the Foundation having less cash in the bank throughout fiscal year 2016, thus earning less interest.

THE ILLINOIS LITERACY FOUNDATION
(A Component Unit of the State of Illinois)
ANALYSIS OF OPERATIONS (unaudited) - CONTINUED
For the Two Years Ended June 30, 2017 and 2016

ANALYSIS OF SIGNIFICANT VARIATIONS IN EXPENSES (unaudited)

The following are explanations of variations in expenses which exceed 20% or more as compared to the prior year:

<u>Fiscal Year 2017</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>	<u>Percent Change</u>	
Contractual	\$ 2,644	\$ 580	\$ 2,064	356%	(1)
Travel	\$ 412	\$ -	\$ 412	∞	(2)
Commodities	\$ 3,567	\$ -	\$ 3,567	∞	(3)
Equipment	\$ 606	\$ -	\$ 606	∞	(4)
 <u>Fiscal Year 2016</u>	 <u>2016</u>	 <u>2015</u>	 <u>Difference</u>	 <u>Percent Change</u>	
Contractual	\$ 580	\$ 818	(\$ 238)	(29%)	(5)
Travel	\$ -	\$ 269	(\$ 269)	(100%)	(6)

- (1) This increase is due to cost of the Illinois Literacy Forum/Luncheon held in the summer of 2017. Directly related to a portion of the increased revenue for the same period.
- (2) This increase in travel expenditures is the result of the Illinois Literacy Foundation reimbursing the Foundation's secretary for travel during the year.
- (3) This increase is due to the purchase of Family Reading Night materials and books for Illinois Literacy Foundation promotions and events.
- (4) This increase in equipment expenditures is due to the purchase of a display and table runner that is used by the Illinois Literacy Foundation at promotional events.
- (5) This change is due to decreased meeting costs of the Board of Directors.
- (6) This change is due to the lack of travel reimbursements by the Foundation to Board Members as there was no travel during the year.