

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

**FINANCIAL AUDIT AND COMPLIANCE**  
**EXAMINATION**

**For the Two Years Ended June 30, 2005**

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

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

**FINANCIAL AUDIT AND COMPLIANCE  
EXAMINATION**

**For the Two Years Ended June 30, 2005**

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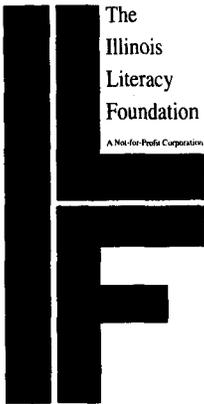
THE ILLINOIS LITERACY FOUNDATION  
(A Component Unit of the State of Illinois)

AGENCY OFFICIALS

Ex Officio Chairman	Honorable Jesse White, Secretary of State
Executive Director	Thomas N. Benigno
President	Nikki M. Zollar, Esq.
Vice President	Dr. Frank W. Gardner
Treasurer	Dr. Roberto R. Castaneda
Secretary	Eugene Mroz

Agency offices are located at:

100 West Randolph Street  
Chicago, IL 60601



## The Illinois Literacy Foundation

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

### STATE COMPLIANCE EXAMINATION

### MANAGEMENT ASSERTION LETTER

Sikich Gardner & Co, LLP  
1000 Churchill Road  
Springfield, IL 62702

October 26, 2005

JESSE WHITE  
Secretary of State  
State Librarian  
Ex-Officio Director

Gentlemen:

#### BOARD OF DIRECTORS

##### *President*

Nikki Zollar, Esq.

##### *Vice-President*

Dr. Frank W. Gardner

##### *Secretary*

Eugene Mroz

##### *Treasurer*

Roberto Castaneda

Joyce O. Calvert

Caroline Sanchez Crozier

Mary Dempsey, Esq.

Richard Dent

Margaret J. O'Connor

Francie Portrey

Anthony Taylor

##### *Members Emeritus*

Claudia Dunne

John Rosales

Thomas N. Benigno

*Executive Director*

*Deputy Secretary of State*

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, 2005. Based on this evaluation, we assert that during the year(s) ended June 30, 2005 and June 30, 2004, 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. The State revenues and receipts collected by the Foundation are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. The 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

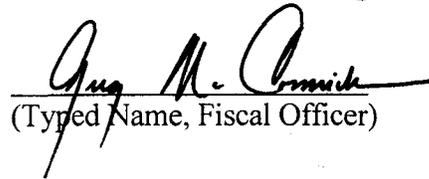
The **Mission** of the Illinois Literacy Foundation is to partner with the corporate and private sectors to enhance literacy awareness and support literacy programs throughout the State of Illinois. Therefore, in collaboration with corporate and private entities, local businesses and state agencies,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

recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

The Illinois Literacy Foundation

  
(Typed Name, Executive Director)

  
(Typed Name, Fiscal Officer)

  
(Typed Name, Legal Counsel)

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

COMPLIANCE REPORT

SUMMARY

For the Years Ended June 30, 2005 and 2004

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

AUDITORS' REPORTS

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

SUMMARY OF FINDINGS

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

There were no current findings and recommendations.

PRIOR FINDINGS NOT REPEATED (STATE COMPLIANCE)

There were no prior findings.

EXIT CONFERENCE

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



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

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

**Compliance**

As Special Assistant Auditors for the Auditor General, we have examined The Illinois Literacy Foundation's (the Foundation), a component unit of the State of Illinois, compliance with the requirements listed below, as more fully described in the Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies (Audit Guide) as adopted by the Auditor General, during the two years ended June 30, 2005. The management of the Foundation is responsible for compliance with these requirements. Our responsibility is to express an opinion on the Foundation's compliance based on our examination.

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

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

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 Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Foundation's compliance with specified requirements.

In our opinion, the Foundation complied, in all material respects, with the aforementioned requirements during the two years ended June 30, 2005.

There were no immaterial findings relating to instances of noncompliance that have been excluded from this report.

### **Internal Control**

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws and regulations. In planning and performing our examination, we considered the Foundation's internal control over compliance with the aforementioned requirements in order to determine our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General.

Our consideration of internal control over compliance with the aforementioned requirements would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws and regulations that would be material in relation to one or more of the aforementioned requirements being examined may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over compliance that we consider to be material weaknesses.

There were no immaterial findings relating to internal control deficiencies that have been excluded from this report.

## **Supplementary Information for State Compliance Purposes**

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities of the Foundation as of and for the years ended June 30, 2005 and 2004, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated October 26, 2005. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Foundation. The 2005 and 2004 Supplementary Information for State Compliance Purposes has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended June 30, 2005 and 2004, taken as a whole.

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

*Siskin Hardner & Co, LLP*

Springfield, Illinois  
October 26, 2005



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities of The Illinois Literacy Foundation (the Foundation), a component unit of the State of Illinois, as of and for the years ended June 30, 2005 and June 30, 2004, which collectively comprise the Foundation's basic financial statements and have issued our report thereon dated October 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Foundation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## **Compliance and Other Matters**

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

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

*Siskin Hardner & Co, LLP*

Springfield, Illinois  
October 26, 2005

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

FINANCIAL STATEMENT REPORT

SUMMARY

For the Years Ended June 30, 2005 and 2004

The audit of the accompanying financial statements of The Illinois Literacy Foundation was performed by Sikich Gardner & Co, LLP.

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



## INDEPENDENT AUDITORS' REPORT

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of the governmental activities of The Illinois Literacy Foundation (the Foundation) (a nonprofit organization and component unit of the State of Illinois) as of June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Foundation as of June 30, 2005 and 2004, and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, the Foundation has adopted the governmental reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*, as amended and interpreted, as of July 1, 2003. The Foundation has also adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, as of July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 26, 2005, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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

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

A handwritten signature in black ink that reads "Dikesh Handner & Co, LLP". The signature is written in a cursive, flowing style.

Springfield, Illinois  
October 26, 2005

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

STATEMENTS OF NET ASSETS  
June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
ASSETS:		
Cash	<u>\$ 33,793</u>	<u>\$ 36,037</u>
Total Assets	<u><u>\$ 33,793</u></u>	<u><u>\$ 36,037</u></u>
NET ASSETS:		
Unrestricted	<u>\$ 33,793</u>	<u>\$ 36,037</u>
Total Net Assets	<u><u>\$ 33,793</u></u>	<u><u>\$ 36,037</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 ACTIVITIES  
For the Year Ended June 30, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues</u> Operating grants and contributions	Net (expense) revenue
Illinois Literacy Foundation	\$ 297,665	\$ 129,820	<u>\$ (167,845)</u>
General revenues:			
Contributions not restricted to specific programs			165,437
Interest income			164
Total general revenues			<u>165,601</u>
Change in net assets			(2,244)
Net assets - beginning			<u>36,037</u>
Net assets - ending			<u><u>\$ 33,793</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 ACTIVITIES  
For the Year Ended June 30, 2004

<u>FUNCTIONS/PROGRAMS</u>	<u>Expenses</u>	<u>Program revenues</u> Operating grants and contributions	Net (expense) revenue
Illinois Literacy Foundation	\$ 236,003	\$ 126,484	<u>\$ (109,519)</u>
General revenues:			
Contributions not restricted to specific programs			<u>99,496</u>
Change in net assets			(10,023)
Net assets - beginning			<u>46,060</u>
Net assets - ending			<u><u>\$ 36,037</u></u>

The accompanying notes are an integral part of these statements.

THE ILLINOIS LITERACY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS

June 30, 2005 and 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

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

B. Financial Reporting Entity

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

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

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

Based upon the required criteria, the Foundation has no component units. However, the Foundation is a component unit of the State of Illinois. Therefore, the financial statements of the Foundation are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams Street, Springfield, Illinois 62704-1871.

THE ILLINOIS LITERACY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Basis of Presentation

The financial activities of the Foundation, which consist only of governmental activities, are reported as a component unit in the State of Illinois' Comprehensive Annual Financial Report. The Foundation only has one fund, thus for its reporting purposes, the Foundation has only government-wide financial statements. A brief description of the Foundation's government-wide financial statements is as follows:

**Government-wide Statements:** The government-wide statement of net assets and statement of activities report the overall financial activity of the Foundation. The financial activities of the Foundation consist only of governmental activities, which are primarily supported by public donations.

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

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 which are administered by the Foundation and accounted for in the special revenue fund include the promotion of literacy among the residents of the State of Illinois.

D. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions, in which the Foundation gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and donations. On an accrual basis, revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

THE ILLINOIS LITERACY FOUNDATION  
NOTES TO FINANCIAL STATEMENTS – Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

D. Measurement Focus and Basis of Accounting - Continued

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

E. Net Assets

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

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

F. Use of Estimates

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

G. Change in Financial Reporting Model

Effective for the year ended June 30, 2004, the Foundation adopted the financial reporting model provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis—for State and Local Governments*, as amended and interpreted. This Statement significantly changes the format and content of the Foundation’s financial statements. It restructures much of the information that the Foundation has presented in the past.

H. New Accounting Pronouncement

Effective for the year ended June 30, 2004, the Foundation adopted GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB Statement No. 3, which addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk.

THE ILLINOIS LITERACY FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS – Continued

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, 2005 and 2004, \$0 of the Foundation’s bank balances of \$32,858 and \$36,045, 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. The Office also provides some administrative expenses for the Foundation.

The amount of financial assistance from the Office to the Foundation for the years ended June 30, 2005 and 2004, was as follows:

	<u>2005</u>	<u>2004</u>
Salaries	\$ 95,980	\$ 93,187
Benefits	<u>33,840</u>	<u>33,297</u>
Subtotal	129,820	126,484
Travel	480	306
Commodities	131	160
Printing	1,000	1,000
Telecommunications	<u>854</u>	<u>1,222</u>
 Total	 <u>\$ 132,285</u>	 <u>\$ 129,172</u>

The subtotals of \$129,820 and \$126,484 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)

SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

SUMMARY

For the Years Ended June 30, 2005 and 2004

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

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

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

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

COMPARISON OF REVENUES AND EXPENSES

For the Years Ended June 30, 2005 and 2004

	2005	2004	Difference
<b>REVENUE</b>			
Direct public support	\$ 165,437	\$ 99,449	\$ 65,988
Interest	164	-	164
Miscellaneous	-	47	(47)
	165,601	99,496	66,105
<b>EXPENSES</b>			
Contractual	5,012	913	4,099
Travel	139	708	(569)
Advertising	-	7,956	(7,956)
Commodities	103	-	103
Professional fees	-	2,946	(2,946)
Program grants	162,591	96,996	65,595
	167,845	109,519	58,326
<b>CHANGE IN NET ASSETS</b>	<b>\$ (2,244)</b>	<b>\$ (10,023)</b>	<b>\$ 7,779</b>

Note:

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

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

FISCAL SCHEDULES AND ANALYSIS

For the Years Ended June 30, 2005 and 2004

Analysis of Significant Variations in Revenue

	<u>2005</u>	<u>2004</u>	<u>Difference</u>	<u>Percent Change</u>	
Direct public support	\$ 165,437	\$ 99,449	\$ 65,988	66.4%	(1)
Interest income	164	-	164	100.0%	(2)
Miscellaneous income	-	47	(47)	(100.0%)	(3)

1. Fiscal year 2005 was the third year of the Holiday Literacy Program, which is run in conjunction with the Chicagoland Borders Books and Music Stores. The escalation of public awareness increased revenues associated with the program.
2. In fiscal year 2005, the Foundation moved its bank account to another financial institution and began receiving interest income on its deposits.
3. In fiscal year 2004, the Foundation received \$47 from the American Cancer Society, which it categorized as Miscellaneous Income.

Analysis of Significant Variations in Expenses

	<u>2005</u>	<u>2004</u>	<u>Difference</u>	<u>Percent</u> <u>Change</u>	
Contractual	\$ 5,012	\$ 913	4,099	448.9%	(4)
Travel	139	708	(569)	(80.4%)	(5)
Advertising	-	7,956	(7,956)	(100.0%)	(6)
Commodities	103	-	103	100.0%	(7)
Professional fees	-	2,946	(2,946)	(100.0%)	(8)
Program grants	162,591	96,996	65,595	67.6%	(9)

4. Contractual expenses in fiscal year 2005 include food for various meetings and events, postage, awards framing, and award certificates. In fiscal year 2004, contractual services expenses only included food for various meetings and events and postage. No awards were purchased or framed in fiscal year 2004.
5. Travel expenses pertain to Board member travel to the Board meetings. In fiscal year 2004, the Foundation incurred increased expenses associated with Board members traveling from the southern part of the state to meetings held in Chicago.
6. A fundraising event was held in fiscal year 2004 to launch the Holiday Literacy Program with Borders Books and Music Stores and the \$7,956 was the advertising incurred for the event.
7. In fiscal year 2005 commodities expenses were incurred to a stationery company for various paper products.
8. Professional fees in fiscal year 2004 were for the audit expense owed to the Office of the Auditor General for the financial and compliance audit for the two years ended June 30, 2003.
9. The contributions received through the Holiday Literacy Program are utilized to purchase gift certificates from Borders Books and Music Stores to benefit local literacy programs based in the communities that serve Borders Books and Music Stores. The more revenue raised, the more gift certificates, or program grants, that can be distributed.

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

ANALYSIS OF OPERATIONS

For the Years Ended June 30, 2005 and 2004

FUNCTIONS AND PLANNING PROGRAM

Foundation Functions

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

The Secretary of State serves as ex officio director of the Foundation. There shall be not less than six nor more than eleven directors of the Foundation. Following is a list of directors of the Foundation as of June 30, 2005:

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

Mary Dempsey  
Chicago Public Library  
Chicago, IL

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

Richard Dent  
First Communications  
Chicago, IL

Dr. Frank W. Gardner (Vice-President)  
Chicago, IL

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

Eugene Mroz (Secretary)  
Chicago, IL

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

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

Joyce O. Calvert  
DuQuoin, IL

Anthony Taylor  
Coca-Cola Bottling Company  
Niles, IL

Francie Portrey  
Infinity Broadcasting  
Chicago, IL

Greta Bever  
Chicago Public Library  
Chicago, IL

Cindy Pritzker (Member Emeritus)  
Chicago, IL

## Foundation Functions – Continued

Wanda Rednour (Member Emeritus)  
DuQuoin, IL

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

Claudia Dunne (Member Emeritus)  
Chicago, IL

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

## Planning Program

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

### MISSION STATEMENT

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

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

### GUIDING PRINCIPLES

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

- \* The Foundation will develop guidelines for awarding grants and contracts as well as a framework for reporting results so that the information can be used to enhance other local programs.

The Foundation Office for the two years ended June 30, 2005, was located at the J.R. Thompson Center in Chicago, Illinois.

#### Auditors' Evaluation

Based on our evaluation of the planning program, the Foundation is fulfilling its Mission Statement and Guiding Principles.

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

STATISTICAL HIGHLIGHTS

For the Years Ended June 30, 2005 and 2004

<u>Statistics</u>	<u>2005</u>	<u>2004</u>
<b>REVENUE</b>		
Direct public support	\$ 165,437	\$ 99,449
Miscellaneous	-	47
Interest	<u>164</u>	<u>-</u>
Total revenue	<u>165,601</u>	<u>99,496</u>
<b>EXPENSES</b>		
Contractual	5,012	913
Travel	139	708
Advertising	-	7,956
Commodities	103	-
Professional fees	-	2,946
Program grants	<u>162,591</u>	<u>96,996</u>
Total expenses	<u>167,845</u>	<u>109,519</u>
<b>CHANGE IN NET ASSETS</b>	(2,244)	(10,023)
<b>NET ASSETS, BEGINNING</b>	<u>36,037</u>	<u>46,060</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 33,793</u>	<u>\$ 36,037</u>
<b>ILLINOIS LITERACY CAMPAIGN</b>		
Number of Districts of Chicagoland Borders Books and Music Stores participating in campaign	4	4
Number of Chicagoland Borders Books and Music Stores participating in campaign	32	28
Number of recipients of the campaign contributions	32	30
Contributions and distributions for campaign	\$ 162,591	\$ 96,996
Average contributions per district	40,648	24,249
Average contributions per store	5,081	3,464
Average contributions per recipient	5,081	3,233

Ex Officio Foundation Director

During audit period and currently:

Honorable Jesse White, Secretary of State