

Literacy Council of Tyler, Inc.
Financial Statements
Together With Independent Auditor's Report
December 31, 2011 and 2010

LITERACY COUNCIL OF TYLER, INC.
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DECEMBER 31, 2011 AND 2010

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Literacy Council of Tyler, Inc.
Tyler, Texas

We have audited the accompanying statements of financial position of Literacy Council of Tyler, Inc. (a non-profit organization) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Literacy Council of Tyler, Inc. as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 12, 2012, on our consideration of Literacy Council of Tyler, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal and state awards is presented for the purpose of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
September 12, 2012

LITERACY COUNCIL OF TYLER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 115,340	\$ 23,637
Grants receivable	83,456	112,766
Contributions receivable	14,450	18,092
Prepaid expenses	6,306	4,786
Total current assets	219,552	159,281
Non-current assets:		
Cash and cash equivalents - restricted	58,168	22,171
Endowment funds	193,757	134,326
Total non-current assets	251,925	156,497
Property and equipment, net of accumulated depreciation	70,543	53,559
Total assets	\$ 542,020	\$ 369,337
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Payroll liabilities	\$ 16,584	\$ 265
Accounts payable	26,834	4,820
Capital leases	-	2,447
Deferred revenues	51,600	-
Total current liabilities	95,018	7,532
Net Assets:		
Unrestricted	127,031	159,915
Unrestricted - Board designated quasi endowment	193,757	134,326
Total unrestricted	320,788	294,241
Temporarily restricted	126,214	67,564
Total net assets	447,002	361,805
Total liabilities and net assets	\$ 542,020	\$ 369,337

The accompanying notes are an integral part of these financial statements.

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Public support	\$ 219,484	\$ -	\$ -	\$ 219,484
Grants	-	1,070,934	-	1,070,934
In-kind donations - rent	184,440	-	-	184,440
In-kind donations	35,821	-	-	35,821
Special events, net of related expense of \$10,684	48,579	-	-	48,579
Gain (loss) on assets	(3,018)	-	-	(3,018)
Dividends	5,500	-	-	5,500
Interest	329	-	-	329
Book sales	19,224	-	-	19,224
Miscellaneous revenue	-	-	-	-
Total support and revenue	510,359	1,070,934	-	1,581,293
Net assets released from restrictions	1,012,284	(1,012,284)	-	-
Total net assets released from restrictions	1,012,284	(1,012,284)	-	-
Total support, revenue and net assets released from restrictions	1,522,643	58,650	-	1,581,293
EXPENSES				
Program services	1,248,921	-	-	1,248,921
Fundraising	77,860	-	-	77,860
General and administrative	169,315	-	-	169,315
Total expenses	1,496,096	-	-	1,496,096
Change in net assets	26,547	58,650	-	85,197
NET ASSETS				
Balance, beginning of year	294,241	67,564	-	361,805
Balance, end of year	<u>\$ 320,788</u>	<u>\$ 126,214</u>	<u>\$ -</u>	<u>\$ 447,002</u>

The accompanying notes are an integral part of these financial statements.

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
SUPPORT AND REVENUE				
Public support	\$ 204,217	\$ -	\$ -	\$ 204,217
Grants	-	940,458	-	940,458
In-kind donations - rent	184,440	-	-	184,440
In-kind donations	9,604	-	-	9,604
Special events, net of related expense of \$12,874	37,036	-	-	37,036
Gain (loss) on assets	914	-	-	914
Dividends	524	-	-	524
Interest	433	-	-	433
Book sales	24,821	-	-	24,821
Miscellaneous revenue	2,376	-	-	2,376
	<hr/>	<hr/>	<hr/>	<hr/>
Total support and revenue	464,365	940,458	-	1,404,823
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Net assets released from restrictions	927,334	(927,334)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total net assets released from restrictions	927,334	(927,334)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total support, revenue and net assets released from restrictions	1,391,699	13,124	-	1,404,823
EXPENSES				
Program services	1,140,557	-	-	1,140,557
Fundraising	57,303	-	-	57,303
General and administrative	170,995	-	-	170,995
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	1,368,855	-	-	1,368,855
	<hr/>	<hr/>	<hr/>	<hr/>
Change in net assets	22,844	13,124	-	35,968
NET ASSETS				
Balance, beginning of year	271,397	54,440	-	325,837
	<hr/>	<hr/>	<hr/>	<hr/>
Balance, end of year	\$ 294,241	\$ 67,564	\$ -	\$ 361,805
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The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total Expenses</u>
Advertising	\$ 11,561	\$ 2,846	\$ -	\$ 14,407
Contract labor	9,938	-	-	9,938
Depreciation	15,357	345	1,553	17,255
Dues and subscriptions	-	-	919	919
Equipment rent & maintenance	9,700	1,764	952	12,416
Individual assistance	10,003	-	-	10,003
Instructional supplies	65,939	-	-	65,939
Insurance	8,531	-	1,600	10,131
Merchant fees	-	5,230	-	5,230
Office expense	-	-	4,533	4,533
Other expenses	298	113	2,703	3,114
Payroll taxes	73,753	-	-	73,753
Postage	4,734	3,438	1,035	9,207
Printing	5,379	8,163	169	13,711
Professional fees	-	-	20,100	20,100
Rents	-	-	2,496	2,496
Rents - In-kind	153,085	-	31,355	184,440
Salaries and benefits	766,529	19,412	101,088	887,029
Special events - in kind	-	35,820	-	35,820
Staff training	4,923	-	-	4,923
Subcontracting	76,597	-	-	76,597
Telephone	4,872	729	279	5,880
Travel and seminars	25,811	-	533	26,344
Volunteer support	1,911	-	-	1,911
Total Expenses	<u>\$ 1,248,921</u>	<u>\$ 77,860</u>	<u>\$ 169,315</u>	<u>\$ 1,496,096</u>

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	<u>Program Services</u>	<u>Fundraising</u>	<u>General & Administrative</u>	<u>Total Expenses</u>
Advertising	\$ 8,415	\$ 1,206	\$ -	\$ 9,621
Contract labor	6,442	-	-	6,442
Depreciation	11,844	266	1,198	13,308
Dues and subscriptions	-	-	919	919
Equipment rent & maintenance	4,871	-	-	4,871
Individual assistance	10,030	-	-	10,030
Instructional supplies	70,126	-	-	70,126
Insurance	9,358	-	1,600	10,958
Interest	-	-	1,062	1,062
Merchant fees	-	5,394	-	5,394
Office expense	-	-	9,399	9,399
Other expenses	2,197	72	618	2,887
Payroll taxes	67,676	-	-	67,676
Postage	4,450	2,884	1,114	8,448
Printing	5,807	8,616	272	14,695
Professional fees	-	-	19,500	19,500
Rents	-	-	1,413	1,413
Rents - In-kind	153,085	-	31,355	184,440
Salaries and benefits	725,733	28,894	101,075	855,702
Special events in-kind	-	9,604	-	9,604
Subcontracting	43,260	-	-	43,260
Telephone	4,418	367	287	5,072
Travel and seminars	10,885	-	1,183	12,068
Volunteer support	1,960	-	-	1,960
Total Expenses	<u>\$ 1,140,557</u>	<u>\$ 57,303</u>	<u>\$ 170,995</u>	<u>\$ 1,368,855</u>

The accompanying notes are an integral part of these financial statements.

LITERACY COUNCIL OF TYLER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
<u>CASH FLOW FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 85,197	\$ 35,968
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	17,255	13,308
(Increase) decrease in assets:		
Grants receivable	29,310	(18,787)
Contributions receivable	3,642	(2,213)
Prepaid expenses	(1,520)	262
Increase in liabilities:		
Payroll liabilities	16,319	159
Accounts payable	22,014	4,820
Deferred revenue	51,600	-
Total adjustments	138,620	(2,451)
Net cash provided by operating activities	223,817	33,517
<u>CASH FLOW FROM INVESTING ACTIVITIES:</u>		
Increase in endowment assets	(59,431)	(121,141)
Capital asset acquisitions	(34,239)	(53,813)
Net cash used in investing activities	(93,670)	(174,954)
<u>CASH FLOW FROM FINANCING ACTIVITIES:</u>		
Principal payments on capital lease obligations	(2,447)	(7,023)
Net cash used in financing activities	(2,447)	(7,023)
Net increase (decrease) in cash and cash equivalents	127,700	(148,460)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	45,808	194,268
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 173,508	\$ 45,808

The accompanying notes are an integral part of these financial statements.

**LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF ACTIVITIES

The Literacy Council of Tyler, Inc. (the “Organization”) is a non-profit corporation chartered in 1990 under laws of the State of Texas. The Organization’s purpose is to improve literacy in the Tyler area and to increase awareness of illiteracy and its effects. The Organization derives its support from donor contributions, grants and through special events for which admission fees and sponsorships are solicited from the general public.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles 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 support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For the purposes of presentation in the Statements of Cash Flows, the Organization considers cash equivalents to be short-term, highly liquid investments that are readily convertible to cash and have original maturities of three months or less.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost for assets purchased and fair market value (at date of contribution) for assets contributed. Expenditures for property over \$2,000 and those which substantially increase useful lives are capitalized. Maintenance and repairs are expensed as incurred. Depreciation is computed using estimated useful lives of five to seven years for equipment and other property using the straight-line method. Capital leases are depreciated over the lesser of the term of the related lease or the estimated useful lives of the assets.

SUPPORT AND REVENUES

Contributions, including unconditional promises to give, are recognized as revenue in the period received and recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions.

When a donor restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated marketable securities and other non-cash donations are recorded as contributions at their estimated fair values at the date of donation.

Donated services consist of volunteers who donate their time to tutor adult education students. No amounts have been reflected in the financial statements for donated services, since volunteers are not required to have any specific expertise. The Organization pays for all services requiring specific expertise.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

INCOME TAXES

The activities of the Organization are exempt from federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the financial statements.

FUNCTIONAL EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the Statements of Activities and in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited.

ADVERTISING COSTS

The Organization uses advertising to promote its education programs. The costs of advertising are expensed as incurred. During the years ended December 31, 2011 and 2010, advertising costs totaled \$14,407 and \$9,621, respectively.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2010 financial statement presentation to correspond to the current year's format. Net assets are unchanged due to these reclassifications.

NOTE 2 – PROPERTY AND EQUIPMENT

The composition of property and equipment at December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Furniture and equipment	\$ 215,870	\$ 217,315
Furniture and equipment - restricted	76,009	40,325
Less: Accumulated depreciation	<u>221,336</u>	<u>204,081</u>
Property and equipment, net of depreciation	<u>\$ 70,543</u>	<u>\$ 53,559</u>

The Organization has possession of restricted property and equipment. These assets were purchased with grant monies and are restricted by the granting agency. They are disclosed as restricted because they are subject to return to the granting agency. Depreciation expenses as of December 31, 2011 and 2010, was \$17,255 and \$13,308, respectively.

NOTE 3 – RECEIVABLES

Grants receivables were \$83,456 and \$112,766 at December 31, 2011 and 2010, respectively, consisting of amounts expended by the Organization that will be reimbursed by granting agencies.

Contributions receivable totaled \$14,450 and \$18,092 as of December 31, 2011 and 2010, which consisted of contributions by donors but not received until the subsequent year.

**LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

NOTE 4 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Program Services	<u>\$ 126,214</u>	<u>\$ 67,564</u>

Temporarily restricted net assets released from restriction as of December 31, 2010 and 2009 were:

	<u>2011</u>	<u>2010</u>
Program Services	<u>\$ 1,012,284</u>	<u>\$ 927,334</u>

NOTE 5 – ENDOWMENT FUNDS

The Organization amended their original agreement with the East Texas Communities Foundation (“Foundation”) that was established in 2000 in order to begin an endowment fund. In November 2010, the board unanimously agreed to transfer funding from Edward Jones to the Foundation to establish two endowments. The Organization’s endowments are designated by the Board of Directors. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Investment Return Objectives, Risk Parameters, and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 4% annually for the designated fund and 6% annually for the operating reserve fund. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The designated fund is invested in a conservative growth portfolio and is to be utilized for timing and cash flow issues. The funds can be accessed by the Executive Director and one officer of the Board. The operating reserve fund is invested in a moderate growth portfolio. The funds are to be utilized for emergencies or major capital needs. Distributions must be requested by 2/3 vote of the Organization’s Board and approval by a simple majority of the Foundation’s Board.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 5 – ENDOWMENT FUNDS – continued

As of December 31, 2011 and 2010, the fair market values of the endowments were \$193,757 and \$134,326, respectively, which are classified as unrestricted funds.

RECONCILIATION OF ORGANIZATION’S ENDOWMENT BY NET ASSET CLASS:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 134,326	\$ -	\$ -	\$ 134,326
Current year contributions:	60,571	-	-	60,571
Investment return:				
Investment income	4,226	-	-	4,226
Net depreciation	(3,019)	-	-	(3,019)
Total investment return	<u>1,207</u>	<u>-</u>	<u>-</u>	<u>1,207</u>
Other changes:				
Administrative fees	(1,428)	-	-	(1,428)
Investment fees	(863)	-	-	(863)
Miscellaneous expenses	<u>(56)</u>	<u>-</u>	<u>-</u>	<u>(56)</u>
Total other changes	<u>(2,347)</u>	<u>-</u>	<u>-</u>	<u>(2,347)</u>
Endowment net assets, end of year	<u>\$ 193,757</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 193,757</u>

NOTE 6 – RELATED PARTY TRANSACTION

The Organization maintains credit cards for work-related use by employees and an employee’s spouse, who is a volunteer with experience in computer and printing equipment, that assists the Organization in purchasing such items.

NOTE 7 – CONCENTRATIONS

The Organization derives a significant portion of its revenue, approximately 68% during 2011 and 66% during 2010, from various grant programs. If this funding source were significantly reduced, it could have an adverse effect on the Organization’s activities and level of service.

NOTE 8 – DEFERRED REVENUE

Deferred revenue as of December 31, 2011, consisted of donations and ticket sales related to the Barbara Bush luncheon that was held in January of 2012.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8 – LEASING ARRANGEMENTS

Capital Lease - In 2010, the Organization was the lessee of certain office equipment under a capital lease which expired in 2011. The total payments made in 2011 totaled \$2,447, of which \$2,040 represented the minimum lease payment.

In 2011, the Organization has entered into other leasing arrangements. However, for materiality purposes, the leases have been classified as operating leases.

Operating Lease - The Organization is the lessee of certain office equipment under operating leases with varying expirations through 2017. Lease expense for office equipment was \$9,994 and \$9,247, in 2011 and 2010, respectively.

The minimum lease payments required under the above operating leases as of December 31, 2011 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Base Rental</u> <u>Payments</u>
2012	\$ 10,817
2013	12,862
2014	12,531
2015	4,908
2016	4,908
Thereafter	2,045
Total Payments	<u>\$ 48,071</u>

NOTE 9 – IN-KIND DONATIONS - RENT

The Organization maintains offices on the Tyler Junior College West Campus (“College”). The College has agreed to lease the offices for a \$10 rental fee. In return, the Organization administers certain grants on behalf of the College. As a result, the fair rental value of \$45,000 for the office lease has been recorded on the financial statements as an in-kind donation of revenue and rental expense.

The Organization also utilizes rental space located at First Presbyterian Church, First United Methodist Church in Mineola, and Douglas Elementary Campus. Based upon the prevailing market lease rates for the type of space being utilized, the fair rental values are estimated to be \$28,600, \$37,400 and \$73,440 respectively.

Total in-kind donations related to rent as of December 31, 2011 and 2010, was \$184,440, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 12, 2012, the date on which the financial statements were available to be issued.

Subsequent to year end, the Organization received several donations to their endowment fund totaling approximately \$518,000. These funds are held by the East Communities Foundation and are available to be utilized based on the donor’s intent.



Celebrating 20 Years!

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*

The Board of Directors
Literacy Council of Tyler, Inc.
Tyler, Texas

We have audited the financial statements of Literacy Council of Tyler, Inc., for the year ended December 31, 2011, and have issued our report thereon dated September 12, 2012. 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

Management of Literacy Council of Tyler, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Literacy Council of Tyler, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether Literacy Council of Tyler, Inc.'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*.

PROTHRO, WILHELM AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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This report is intended solely for the information and use of the board of directors, management, and grant awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Prothro, Wilhelmi & Company, PLLC

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
September 12, 2012

Celebrating 20 Years!

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors
Literacy Council of Tyler, Inc.
Tyler, Texas

COMPLIANCE

We have audited Literacy Council of Tyler, Inc.'s (the "Organization") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2011. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

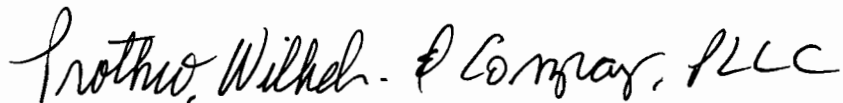
INTERNAL CONTROL OVER COMPLIANCE

Management of Literacy Council of Tyler, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Literacy Council of Tyler, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program 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 type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
September 12, 2012

**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued:	<i>Unqualified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Type of auditor’s report issued on compliance for major programs:	<i>Unqualified</i>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 or the State of Texas Single Audit Circular?	No

Identification of major programs:

FEDERAL	
<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.002A	Adult Education – Basic Grants to States

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
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Literacy Council of Tyler was classified as a low-risk auditee in accordance with OMB Circular A-133.

**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None.

LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS - THROUGH GRANTORS NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION			
PASS THROUGH FROM:			
Tyler Junior College			
Adult Education - Basic Grants to States	84.002A	114100017110356	\$ 208,713
Adult Education - Basic Grants to States	84.002A	124100017110414	183,999
Adult Education - Basic Grants to States	84.002A	114100087110395	74,043
Adult Education - Basic Grants to States	84.002A	124100087110457	<u>58,342</u>
Total U.S. Department of Education			<u>525,097</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass Through Tyler Junior College:			
Temporary Assistance for Needy Families	93.558	113625017110334	18,459
Temporary Assistance for Needy Families	93.558	123625017110389	8,405
Pass Through East Texas Council of Governments:			
Temporary Assistance for Needy Families	93.558	LCOT-TANF-PY10-01	35,433
Temporary Assistance for Needy Families	93.558	LCOT-TANF-PY11-01	<u>8,745</u>
Total U.S. Department of Health and Human Services			<u>71,042</u>
U.S. DEPARTMENT OF LABOR			
Pass Through From East Texas Council of Governments:			
Workforce Investment Act - Youth Activities	17.259	LCOT-WIA-PY09-01	42,052
Total U.S. Department of Labor			<u>42,052</u>
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Pass Through City of Tyler:			
Community Development Block Grant	14.218	294-0930-811.3792	27,402
Community Development Block Grant	14.218	294-0930-811.3823	<u>8,065</u>
Total U.S. Department of Housing and Urban Development			<u>35,467</u>
TOTAL FEDERAL ASSISTANCE			<u><u>\$ 673,658</u></u>

**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	PASS - THROUGH GRANTORS NUMBER	STATE EXPENDITURES
U.S. DEPARTMENT OF EDUCATION PASS THROUGH FROM:		
Tyler Junior College		
Adult Education - Basic Grants to States	110100017110356	\$ 86,600
Adult Education - Basic Grants to States	120100017110414	<u>5,381</u>
Total U.S. Department of Education		<u>91,981</u>
TEXAS HIGHER EDUCATION COORDINATING BOARD		
Intensive Summer Programs for General Education Students	4010	29,159
Intensive Summer Programs for General Education Students	0-6085	22,659
Innovation Grant	0-7049	<u>37,129</u>
Total Texas Higher Education Coordinating Board		<u>88,947</u>
TOTAL STATE ASSISTANCE		<u><u>\$ 180,928</u></u>

LITERACY COUNCIL OF TYLER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED DECEMBER 31, 2011

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

Basis of Presentation

The accompanying schedules of expenditures of federal state awards include the federal grant activity of Literacy Council of Tyler, Inc. (the “Organization”) and are presented on the accrual basis of accounting. The information in these schedules is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The expenditures included in the schedules are reported for the Organization’s year end. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above represent funds which have been expended by the Organization for the purposes of the award. The expenditures reported above may not have been reimbursed by the funding agencies as of the year end. Some amounts reported in the schedule may differ from amounts used in the preparation of the general purpose financial statements. Separate records are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The Organization has followed all applicable guidelines issued by various entities in the preparation of the schedules.