

Literacy Council of Tyler, Inc.
Financial Statements
Together with Independent Auditors' Report
June 30, 2022

LITERACY COUNCIL OF TYLER, INC.
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INDEPENDENT AUDITORS' REPORT

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

OPINION

We have audited the accompanying financial statements of the Literacy Council of Tyler, Inc. (a non-profit organization) ("the Organization"), which comprise the statement of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

RESPONSIBILITIES OF MANAGEMENT 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

SUPPLEMENTARY INFORMATION

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 awards, as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2022, on our consideration of the Organization'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 solely 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 Organization's 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 Organization's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Prothro, Wilhelmi & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
November 16, 2022

LITERACY COUNCIL OF TYLER, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2022 AND 2021

ASSETS	<u>2022</u>	<u>2021</u>
Current assets:		
Cash and cash equivalents	\$ 484,191	\$ 257,332
Grants receivable	232,364	241,572
Charitable lead annuity trust receivable	79,146	79,146
Prepaid expenses	<u>15,120</u>	<u>13,294</u>
Total current assets	<u>810,821</u>	<u>591,344</u>
Non-current assets:		
Cash and cash equivalents - restricted	2,704	2,704
Beneficial interest in endowment funds	2,513,205	2,964,881
Beneficial interest in charitable lead annuity trust	<u>361,141</u>	<u>413,905</u>
Total non-current assets	<u>2,877,050</u>	<u>3,381,490</u>
Property and equipment, net of accumulated depreciation	<u>2,849</u>	<u>4,274</u>
Total assets	<u>\$ 3,690,720</u>	<u>\$ 3,977,108</u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Payroll liabilities	\$ 15,221	\$ 38,518
Deferred revenue	36,160	35,431
Accounts payable	251,822	52,996
Current portion of paycheck protection program loan	<u>-</u>	<u>49,400</u>
Total current liabilities	<u>303,203</u>	<u>176,345</u>
Non-current liabilities:		
Non-current portion of paycheck protection program loan	<u>-</u>	<u>197,600</u>
Total non-current liabilities	<u>-</u>	<u>197,600</u>
Net assets:		
Without donor restrictions	1,532,165	1,599,975
With donor restrictions	<u>1,855,352</u>	<u>2,003,188</u>
Total net assets	<u>3,387,517</u>	<u>3,603,163</u>
Total liabilities and net assets	<u>\$ 3,690,720</u>	<u>\$ 3,977,108</u>

See accompanying notes and independent auditor's report.

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions of cash and other financial assets	\$ 293,591	\$ -	\$ 293,591
Contributions of nonfinancial assets	116,333	-	116,333
Grants	-	2,943,489	2,943,489
Foundations	-	10,000	10,000
Special events	54,050	-	54,050
Unrealized (loss) on beneficial interest in endowments, net of related expenses	(119,128)	(400,866)	(519,994)
Interest	594	-	594
Book sales	280	-	280
Gain on extinguishment of debt	247,000	-	247,000
Miscellaneous revenue	3,479	-	3,479
	<u>596,199</u>	<u>2,552,623</u>	<u>3,148,822</u>
Reclassification of endowment funds	99,243	(99,243)	-
Net assets released from restrictions	<u>2,601,216</u>	<u>(2,601,216)</u>	<u>-</u>
Total support and revenue, reclassification of endowment funds, and net assets released from restrictions	<u>3,296,658</u>	<u>(147,836)</u>	<u>3,148,822</u>
EXPENSES			
Program services	3,102,095	-	3,102,095
General and administrative	163,518	-	163,518
Fundraising	98,855	-	98,855
	<u>3,364,468</u>	<u>-</u>	<u>3,364,468</u>
Change in net assets	(67,810)	(147,836)	(215,646)
NET ASSETS			
Balance, beginning of year	<u>1,599,975</u>	<u>2,003,188</u>	<u>3,603,163</u>
Balance, end of year	<u>\$ 1,532,165</u>	<u>\$ 1,855,352</u>	<u>\$ 3,387,517</u>

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
SUPPORT AND REVENUE			
Contributions of cash and other financial assets	\$ 350,284	\$ -	\$ 350,284
Contributions of nonfinancial assets	123,035	-	123,035
Grants	-	2,474,075	2,474,075
Foundations	-	13,000	13,000
Special events	47,975	-	47,975
Unrealized gain on beneficial interest in endowments, net of related expenses	31,619	430,608	462,227
Interest	446	-	446
Book sales	90	-	90
Gain on extinguishment of debt	247,739	-	247,739
Miscellaneous revenue	1,245	-	1,245
Total support and revenue	<u>802,433</u>	<u>2,917,683</u>	<u>3,720,116</u>
Reclassification of endowment funds	91,403	(91,403)	-
Net assets released from restrictions	<u>2,907,572</u>	<u>(2,907,572)</u>	<u>-</u>
Total support, revenue, reclassification of endowment funds, and net assets released from restrictions	<u>3,801,408</u>	<u>(81,292)</u>	<u>3,720,116</u>
EXPENSES			
Program services	2,865,694	-	2,865,694
General and administrative	267,173	-	267,173
Fundraising	76,837	-	76,837
Total expenses	<u>3,209,704</u>	<u>-</u>	<u>3,209,704</u>
Change in net assets	591,704	(81,292)	510,412
NET ASSETS			
Balance, beginning of year	<u>1,008,271</u>	<u>2,084,480</u>	<u>3,092,751</u>
Balance, end of year	<u>\$ 1,599,975</u>	<u>\$ 2,003,188</u>	<u>\$ 3,603,163</u>

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022

	<u>Program Services</u>			<u>Supporting Services</u>		
	Basic Literacy, General Education Development, and English Second Language	Integrated Educations and Training, College Prep, Individual Assistance, Preschool	Total Program Services	General & Administrative	Fundraising	Total Expenses
Advertising	\$ 17,432	\$ 2,377	\$ 19,809	\$ -	\$ 4,710	\$ 24,519
Contract labor	284	39	323	-	-	323
Depreciation	1,254	171	1,425	-	-	1,425
Dues and subscriptions	-	-	-	3,022	-	3,022
Equipment rent & maintenance	7,215	984	8,199	474	797	9,470
Individual assistance	5,572	-	5,572	-	-	5,572
Instructional supplies	95,853	13,071	108,924	-	-	108,924
Insurance	22,050	3,007	25,057	-	-	25,057
Legends park	379	-	379	-	-	379
Office	6,135	837	6,972	20,921	-	27,893
Other	-	-	-	-	34,605	34,605
Payroll taxes	89,665	8,608	98,273	13,169	3,485	114,927
Postage	153	21	174	58	3,085	3,317
Printing	898	123	1,021	-	8,558	9,579
Professional fees	-	-	-	30,500	-	30,500
Rent	23,921	3,262	27,183	(3,183)	-	24,000
Rent-in-kind	89,611	5,700	95,311	19,522	-	114,833
Salaries and benefits	1,281,193	112,520	1,393,713	76,151	25,559	1,495,423
Special events	-	-	-	-	15,532	15,532
Special events - in-kind	-	-	-	-	1,500	1,500
Staff training	8,077	1,101	9,178	2,224	-	11,402
Subcontracting	400,839	-	400,839	-	-	400,839
Subrecipient	793,755	88,195	881,950	-	-	881,950
Telephone	7,603	1,037	8,640	660	1,024	10,324
Travel and seminars	7,244	988	8,232	-	-	8,232
Volunteer support	810	111	921	-	-	921
Total Expenses	\$ 2,859,943	\$ 242,152	\$ 3,102,095	\$ 163,518	\$ 98,855	\$ 3,364,468

See accompanying notes and independent auditor's report.

LITERACY COUNCIL OF TYLER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	Program Services			Supporting Services		Total Expenses
	Basic Literacy, General Education Development, and English Second Language	Integrated Educations and Training, College Prep, Individual Assistance, Preschool	Total Program Services	General & Administrative	Fundraising	
Advertising	\$ 32,853	\$ 3,650	\$ 36,503	\$ -	\$ 850	\$ 37,353
Contract labor	970	108	1,078	-	-	1,078
Depreciation	1,282	143	1,425	-	-	1,425
Dues and subscriptions	-	-	-	2,216	-	2,216
Equipment rent & maintenance	10,485	1,165	11,650	673	1,089	13,412
Individual assistance	-	332	332	-	-	332
Instructional supplies	65,481	9,099	74,580	-	-	74,580
Insurance	18,931	2,104	21,035	-	-	21,035
Office	-	-	-	15,396	-	15,396
Other	44	5	49	-	12,485	12,534
Payroll taxes	82,509	4,923	87,432	13,910	2,814	104,156
Postage	216	24	240	-	4,645	4,885
Printing	302	34	336	-	9,722	10,058
Professional fees	-	-	-	28,400	-	28,400
Rent	24,465	2,718	27,183	5,817	-	33,000
Rent-in-kind	96,006	8,600	104,606	17,614	-	122,220
Salaries and benefits	1,081,240	73,489	1,154,729	181,505	36,040	1,372,274
Special events	-	-	-	-	7,338	7,338
Special events - in-kind	-	-	-	-	815	815
Staff training	5,900	656	6,556	949	-	7,505
Subcontracting	107,819	246,848	354,667	-	-	354,667
Subrecipient	876,019	97,335	973,354	-	-	973,354
Telephone	5,576	620	6,196	693	1,039	7,928
Travel and seminars	1,273	142	1,415	-	-	1,415
Volunteer support	2,095	233	2,328	-	-	2,328
Total Expenses	\$ 2,413,466	\$ 452,228	\$ 2,865,694	\$ 267,173	\$ 76,837	\$ 3,209,704

See accompanying notes and independent auditor's report.

LITERACY COUNCIL OF TYLER, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

<u>CASH FLOW FROM OPERATING ACTIVITIES:</u>	<u>2022</u>	<u>2021</u>
Change in net assets	\$ (215,646)	\$ 510,412
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,425	1,425
Net unrealized (gain) loss on beneficial interest in endowment	519,993	(462,227)
Gain on extinguishment of debt	(247,000)	(247,739)
(Increase) decrease in operating assets:		
Grants receivable	9,208	(185,032)
CLAT receivable	52,764	52,764
Prepaid expenses	(1,826)	(2,939)
Increase (decrease) in operating liabilities:		
Accounts payable	198,826	47,586
Payroll liabilities	(23,297)	14,487
Deferred revenue	729	7,398
Total adjustments	<u>510,822</u>	<u>(774,277)</u>
Net cash (used in) operating activities	<u>295,176</u>	<u>(263,865)</u>
<u>CASH FLOW FROM INVESTING ACTIVITIES:</u>		
Additions to beneficial interest in endowment	<u>(68,317)</u>	<u>(91,757)</u>
Net cash (used in) investing activities	<u>(68,317)</u>	<u>(91,757)</u>
<u>CASH FLOW FROM FINANCING ACTIVITIES:</u>		
Receipt of paycheck protection program loan	<u>-</u>	<u>247,000</u>
Net cash provided by financing activities	<u>-</u>	<u>247,000</u>
Net increase (decrease) in cash and cash equivalents	226,859	(108,622)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>260,036</u>	<u>368,658</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 486,895</u>	<u>\$ 260,036</u>
<u>RECONCILIATION TO STATEMENTS OF FINANCIAL POSITION</u>		
Cash and cash equivalents	\$ 484,191	\$ 257,332
Cash and cash equivalents - restricted	2,704	2,704
Total cash and cash equivalents	<u>\$ 486,895</u>	<u>\$ 260,036</u>

See accompanying notes and independent auditor's report.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 the 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 Organization’s financial statements are presented in accordance with Accounting Standards Codification (“ASC”) No. 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under ASC No. 958, the Organization is required to report information regarding its financial position and activities by class.

Net Assets Without Donor Restrictions are amounts currently available at the discretion of the Board for use in the Organization’s operations and those resources invested in equipment or real estate.

Net Assets With Donor Restrictions are stipulated by donors for specific operation purposes or for the acquisition of equipment.

RECENTLY ADOPTED ACCOUNTING STANDARDS

In September 2020, the Financial Accounting Standard Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2020-07, “*Not-For-Profit Entities*” (Topic 958): Presentation and Disclosures By Not-For-Profit Entities For Contributed Nonfinancial Assets. ASU 2020-07 is effective for fiscal years beginning after June 15, 2021. Under the new guidance, contributed nonfinancial assets, including food, used clothing and household items, supplies, pharmaceuticals, medical equipment, intangibles, contributed use of long-lived assets, and contributed services, will be reported as a separate line item on the statement of activities apart from contributions of cash and other financial assets.

This new standard requires non-profit entities to disclose the total value recognized for each category of gifts-in-kind received in the notes to the financial statements. The total value should agree to the total value of gifts-in-kind recognized in the statement of activities. See further detail of the implementation of this standard under the “Support and Revenues” section of Note 1 and at Note 10.

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.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost for assets purchased and at 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.

DEFERRED REVENUE

The Organization's deferred revenue is made up of funds received before year-end for the annual Spelling Bee, a special event that is held after year-end.

LONG-TERM DEBT

The Paycheck Protection Program ("PPP"), established as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and facilitated by the Small Business Administration, provides for loans to qualifying entities for amounts up to 2.5 times the average monthly payroll expenses of the qualifying entity. Under the terms of the PPP, certain amounts of the loan may be forgiven if they are used for qualifying expenses as described in the CARES Act. As of June 30, 2022, the Organization's second PPP loan was forgiven, and shown on the Statement of Activities as a gain on extinguishment of debt.

SUPPORT AND REVENUES

Contributions are recognized as revenue in the period received and recorded as support without donor restrictions or with donor restrictions depending on the existence and nature of any donor restrictions.

The Organization recognizes revenue according to the FASB Accounting Standards Codification ("ASC") Topic 606 *Revenue Recognition* ("ASC 606"). ASC 606 provides guidelines for presenting and disclosing revenue from contracts with customers, including revenue that is expected to be recognized.

The only revenues at the Organization that constitute a contract under ASC 606 are revenues associated with special events – Refer to Note 11.

In accordance with the FASB's ASC No. 958-605, related to the Accounting Standards Update No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, the Organization is required to report its information regarding contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets.

Along with the change to the face of the financial statements, it is also required to disclose for each category of nonfinancial assets – Refer to Note 10:

- Qualitative information about whether the gift-in-kind was monetized (i.e., sold) or used during the reporting period. If it was used, also disclose a description of the programs or other activities in which the assets were used. A best practice is to use the same program or activity names in the disclosure that are used in the expense section of the statement of activities.
- The Organization's policy, if applicable, regarding monetizing rather than using gifts-in-kind.
- A description of any donor-imposed restrictions associated with the gift-in-kind.
- A description of the valuation techniques and inputs used to arrive at the fair value measurement.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

SUPPORT AND REVENUES - continued

- The principal market (or most advantageous market) used to arrive at a fair value measurement if it is a market in which the Organization is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets.

For contributed services, the disclosures above are in addition to the disclosures currently required for contributed services.

When a donor restriction is satisfied or expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions

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.

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

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. The Organization believes it has filed all required tax reports and has no uncertain tax positions. The years 2018 to 2021 remain open for examination by taxing authorities.

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 Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and support services benefited.

As presented on the Statements of Functional Expenses (pages 7 and 8), the Organization’s principal program and support services include:

Basic Literacy, GED, and ESL

The Organization supports three core programs: Basic Literacy, General Education Development (“GED”) and English Second Language (“ESL”). The majority of program expenses incurred support the three core programs.

IET Training, College Prep, Individual Assistance, and Preschool

The Organization supports several non-core programs: Integrated Educations and Training (“IET”), College Prep, Individual Assistance (transportation assistance, textbook assistance, and college scholarships), and preschool for children of students. The non-core programs represent a small portion of overall program expense.

Fundraising

While the majority of support comes from grants, the Organization incurs small expenses in connection with donations received directly.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

JOINT COSTS

During the years ended June 30, 2022 and 2021, the Organization incurred joint costs of \$1,610,350 and \$1,476,430, respectively, for salaries and payroll taxes for employees who performed activities related to program, general and administrative, and fundraising expenses. The Organization allocated \$1,491,986, \$89,320, and \$29,044 for 2022 and \$1,242,161, \$195,415, and \$38,854 for 2021, respectively, to program, management and general, and fundraising expense.

ADVERTISING COSTS

The Organization uses advertising to promote its education programs. The costs of advertising are expensed as incurred. During the periods ended June 30, 2022 and 2021, advertising costs totaled \$24,519 and \$37,353, respectively.

NEW ACCOUNTING GUIDANCE NOT YET ADOPTED

In February 2016, the FASB issued ASU No. 2016-02, “Leases” (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- Lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Additional qualitative and quantitative disclosures will be required so users can understand more about the nature of an entity’s leasing activities. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees will no longer be provided with a source of off-balance sheet financing. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2021, and interim periods within fiscal years beginning after December 15, 2022. Lessees (for financing and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. The Organization is currently evaluating the potential impact of adopting this guidance on its financial statements.

NOTE 2 – PROPERTY AND EQUIPMENT

The composition of property and equipment at June 30, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 86,271	\$ 86,271
Furniture and equipment - restricted	200	200
Less: Accumulated depreciation	<u>83,622</u>	<u>82,197</u>
Property and equipment, net of depreciation	<u>\$ 2,849</u>	<u>\$ 4,274</u>

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 2 – PROPERTY AND EQUIPMENT - continued

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 expense for the periods ended June 30, 2022 and 2021, were \$1,425 and \$1,425, respectively.

NOTE 3 – GRANTS RECEIVABLE

Grants receivable were \$232,364 and \$241,572 at June 30, 2022 and 2021, respectively, consisting of amounts expended by the Organization that will be reimbursed by granting agencies.

Management has determined the grants receivable balance is collectable in full given the allowable nature of expenses submitted for reimbursement; therefore, management does not estimate an allowance for grants receivable.

NOTE 4 – CHARITABLE LEAD ANNUITY TRUST

In 2015, a donor established a Charitable Lead Annuity Trust (“CLAT”) for the benefit of the Organization. The CLAT is expected to distribute \$26,382 every six months for fifteen years for a total of \$791,460. The entire amount has been recorded as revenue with donor restriction due to time. The current portion of \$79,146 has been recorded on the Statement of Financial Position as a current receivable, and the non-current portion was \$361,141 and \$413,905, respectively, as of June 30, 2022 and 2021.

NOTE 5 – AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization’s financial assets as of June 30, 2022 and 2021, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of June 30, 2022. Donor-restricted amounts that are available for use within one year for general purposes include the estimated payment of \$79,146, from CLAT receivable.

	2022	2021
Financial assets, at year end	\$3,672,751	\$3,959,540
Less those unavailable for general expenditures within one year, due to:		
Beneficial interest in CLAT receivable		
due in more than one year	361,141	413,905
Donor-imposed restrictions:		
Donor-restricted to maintain as an endowment	1,491,507	1,586,579
Cash restricted for program use	2,704	2,704
Financial assets available to meet cash needs for general expenditures within one year	\$1,817,399	\$1,956,352

As part of the Organization’s liquidity management, it has an endowment of \$2,513,205. Although the Organization does not intend to spend from its endowment other than amounts appropriated for general expenditure as approved by the Board, amounts from its quasi-endowment could be made available if necessary.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 – BENEFICIAL INTEREST IN ENDOWMENT FUNDS

East Texas Communities Foundation

The Organization has three designated funds at East Texas Communities Foundation (“ETCF”). These funds are designed to provide the Organization assistance in maintaining facilities and programs. ETCF has not been granted variance power by the Organization. The assets have been reported in the accompanying consolidated financial statements in accordance with ASC 958-605-50, subsections 4-6, *Transfer of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Hold Contributions for Others* at a current fair market value under the caption of Beneficial Interest in Endowment Funds.

As of June 30, 2022 and 2021, the Organization maintained beneficial interest in three endowment funds as follows:

	2022	2021
Operating Reserve Fund	\$ 60,405	\$ 69,360
Board Designated Fund	390,233	405,524
Adult Literacy Endowment Fund	2,062,567	2,489,997
	\$ 2,513,205	\$2,964,881

Investment Return Objectives, Risk Parameters, and Strategies

The Organization has adopted investment and spending policies, approved by the Board, 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. 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

Operating Reserve Fund

The Operating Reserve 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.

Board Designated Reserve Fund

The Board Designated 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 approved by a simple majority of the Foundation’s Board.

Adult Literacy Endowment Fund

The Adult Literacy Endowment Fund may distribute up to 5% of the value of the fund determined as of the preceding year end. Any portion of the distribution not withdrawn by the nonprofit in one year may be withdrawn in a subsequent year.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 – BENEFICIAL INTEREST IN ENDOWMENT FUNDS - continued

Spending Policy - continued

Adult Literacy Endowment Fund - continued

In addition to ordinary distributions, extraordinary distributions over 5% and up to 20% of the value of the fund determined as of the preceding year end may be made to the nonprofit from the fund at any time in any amount if requested by a 3/4 vote of the total number of directors or trustees of the nonprofit and approved by a majority vote of the Foundation’s Board. Only one extraordinary distribution may be made within seven calendar years.

In addition to the ordinary and extraordinary distributions, distributions of up to 100% of the balance of the fund may be made if requested by unanimous vote of the total number of directors or trustees of the nonprofit and signed by a majority vote of the Foundation’s Board.

This fund is intended to be a permanent endowment fund and any amount over 5% withdrawn in any year should be repaid as soon as practicable.

Reconciliation of the Organization’s Endowment by Net Asset Class

The following summarizes the changes that occurred in the endowment funds for the years ended June 30, 2022 and 2021, respectively:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2021	\$ 1,378,302	\$ 1,586,579	\$ 2,964,881
Current year contributions	64,146	4,171	68,317
Investment return:			
Investment income	224,076	-	224,076
Unrealized (loss) on endowments	<u>(706,969)</u>	<u>-</u>	<u>(706,969)</u>
Total investment return	(482,893)	-	(482,893)
Other changes:			
Administrative fees	(18,743)	-	(18,743)
Investment fees	(16,575)	-	(16,575)
Miscellaneous expenses	<u>(1,782)</u>	<u>-</u>	<u>(1,782)</u>
Total other changes	(37,100)	-	(37,100)
Amount available for release	<u>99,243</u>	<u>(99,243)</u>	<u>-</u>
Endowment net assets, June 30, 2022	<u>\$ 1,021,698</u>	<u>\$ 1,491,507</u>	<u>\$ 2,513,205</u>

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 6 – BENEFICIAL INTEREST IN ENDOWMENT FUNDS - continued

Reconciliation of the Organization’s Endowment by Net Asset Class - continued

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, July 1, 2020	\$ 813,290	\$ 1,597,607	\$ 2,410,897
Current year contributions	11,382	80,375	91,757
Investment return:			
Investment income	296,439	-	296,439
Unrealized gain on endowments	202,054	-	202,054
Total investment return	498,493	-	498,493
Other changes:			
Administrative fees	(17,322)	-	(17,322)
Investment fees	(16,709)	-	(16,709)
Miscellaneous expenses	(2,235)	-	(2,235)
Total other changes	(36,266)	-	(36,266)
Amount available for release	91,403	(91,403)	-
Endowment net assets, June 30, 2021	<u>\$ 1,378,302</u>	<u>\$ 1,586,579</u>	<u>\$ 2,964,881</u>

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 7 – RESTRICTIONS ON NET ASSETS

The Organization’s net assets are comprised of the following:

	<u>2022</u>	<u>2021</u>
Net assets without donor restrictions:		
Undesignated	\$ 428,472	138,253
Board designated net assets:		
CLAT receivable	79,146	79,146
Property and equipment	2,849	4,274
Beneficial interest in endowments	<u>1,021,698</u>	<u>1,378,302</u>
Total board designated	<u>1,103,693</u>	<u>1,461,722</u>
Total net assets without donor restrictions	<u>1,532,165</u>	<u>1,599,975</u>
Net assets with donor restrictions:		
Restrictions by donor as to time (CLAT receivable)	361,141	413,905
Restricted cash	2,704	2,704
Permanent donor restrictions to provide for future needs of the Organization (beneficial interest in endowments)	<u>1,491,507</u>	<u>1,586,579</u>
Total net assets with donor restrictions	<u>1,855,352</u>	<u>2,003,188</u>
Total net assets	<u>\$ 3,387,517</u>	<u>\$ 3,603,163</u>

NOTE 8 – CONCENTRATIONS

The Organization derives a significant portion of its revenue, approximately 93% during the period, 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 9 – LONG-TERM DEBT

During the year ended June 30, 2021, the Organization received loan proceeds in the amount of \$247,000 under the PPP. The specific terms of the note are that there will be monthly payments of \$4,222, beginning on June 1, 2022 at an annual rate of 1.00%. The loan matures on February 11, 2026. The Organization received forgiveness in full on this loan before June 1, 2022 and therefore has no long-term debt as of June 30, 2022.

NOTE 10 – CONTRIBUTED NONFINANCIAL ASSETS

The Organization recognized nonfinancial assets within revenue, which included donated rental space located at First Presbyterian Church (“the Church”), the Douglas Elementary campus, and the Tyler Junior College West Campus (“the College”). Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 10 – CONTRIBUTED NONFINANCIAL ASSETS - continued

The Organization’s policy for contributed nonfinancial assets is to take each contribution on a case-by-case basis to the board of directors for a decision based on its discretion, unless otherwise restricted by the donor.

The contributed rent is used for program activities. In valuing the contributed rent, the Organization calculated an estimated fair value utilizing the most recent office market survey report published for Tyler, Texas.

For the years ended June 30, 2022 and 2021, contributed nonfinancial assets recognized within the statement of activities included:

<u>Asset Category</u>	<u>Revenue Recognized 2022</u>	<u>Revenue Recognized 2021</u>	<u>Utilization in Program/Activities</u>	<u>Donor Restrictions</u>	<u>Valuation Techniques and Inputs</u>
Rent	\$ 116,333	\$ 123,035	Program Activities	No associated donor restrictions	In valuing the donated rent for buildings located in Tyler, Texas, the estimated fair value is determined on the basis of the rental values per square foot based on the most recent office market survey report published for Tyler, multiplied by the approximate square footage that the Organization utilizes, subtracted by the amount the Organization paid for in fiscal year 2021 and 2022.
Total	<u>\$ 116,333</u>	<u>\$ 123,035</u>			

NOTE 11 – REVENUE RECOGNITION

The timing of revenue recognition, billings, and cash collections results in customer advances and deposits (“contract liabilities”) on the Statements of Financial Position. Amounts are billed in accordance with agreed-upon contracted amounts and terms.

For payments from special event attendees, cash is generally collected upon the sale of a ticket prior to the recognition of revenue, which results in contract liability. Contract liabilities are reported on the Statements of Financial Position as deferred revenue. Revenues are recognized when special events occur, which is considered the sole performance obligation.

The beginning and ending contract balances were as follows:

	<u>2020</u>	<u>June 30, 2021</u>	<u>2022</u>
Deferred revenues	<u>\$ 28,033</u>	<u>\$ 35,431</u>	<u>\$ 36,160</u>

Due to the nature of the special events, all contract liabilities outstanding at the beginning of the fiscal year were recognized as revenue during the fiscal year.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 12 – LEASING ARRANGEMENTS

The Organization is the lessee of certain office equipment under operating leases with varying expirations through 2024. Annual lease expense for office equipment was \$12,114 during the periods ended June 30, 2022 and 2021.

The minimum lease payments required under the above operating leases as of June 30, 2022 and 2021, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Base Rental</u> <u>Payments</u>
2023	\$ 12,114
2024	10,216
2025	-
2026	-
2027	-
Total Payments	<u>\$ 22,330</u>

NOTE 13 – RENT

The Organization maintains offices on the College campus. Additionally, the Organization pays a small amount of rent to the Church. The fees for the leased offices at the College and the Church were \$24,000 and \$33,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 14 – SPECIAL EVENTS

The Organization's special event was the Spelling Bee. The schedule below summarizes the activity related to the event.

<u>2022</u>			
<u>Event</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Spelling Bee	\$ 54,050	\$(15,532)	<u>\$ 38,518</u>
<u>2021</u>			
<u>Event</u>	<u>Revenues</u>	<u>Expenses</u>	<u>Net</u>
Spelling Bee	\$ 47,975	\$ (1,027)	<u>\$ 46,948</u>

LITERACY COUNCIL OF TYLER, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

NOTE 15 – RECONCILIATION OF REVENUE PER AUDITED FINANCIAL STATEMENTS TO FORM 990

The following schedule reconciles the revenue from the audited financial statements to the 2022 and 2021 Form 990:

	<u>2022</u>	<u>2021</u>
Reconciliation of Income:		
Total revenue per audited financial statements	\$ 3,148,822	\$ 3,720,116
Net unrealized loss (gain) on endowments	706,969	(202,054)
Rent-in-kind	(114,833)	(122,220)
Special events	(15,532)	(7,338)
Investment expenses	37,100	36,266
Total revenue per Form 990, page 1, line 12	<u>\$ 3,762,526</u>	<u>\$ 3,424,770</u>

NOTE 16 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 16, 2022, the date on which the financial statements were available to be issued.



INDEPENDENT AUDITORS' 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, 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 Literacy Council of Tyler, Inc., (“a nonprofit organization”) (“the Organization”), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 16, 2022.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Organization’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Organization’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization’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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

REPORT ON COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Prothro, Wilhelmi & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
November 16, 2022



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

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

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

Opinion on Each Major Federal Program

We have audited the Literacy Council of Tyler, Inc.'s, (the Organization's) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2022. 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.

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

PROTHRO, WILHELMI AND COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists.

The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Organization's compliance with the requirements for each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

REPORT ON 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 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 a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance.

Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Prothro, Wilhelmi & Company, PLLC". The signature is written in a cursive, flowing style.

PROTHRO, WILHELMI, AND COMPANY, PLLC

Tyler, Texas
November 16, 2022

LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

<u>FEDERAL GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>FEDERAL ASSISTANCE LISTING NUMBER</u>	<u>PASS - THROUGH GRANTORS NUMBER</u>	<u>LCOT FEDERAL EXPENDITURES</u>	<u>PASSED THROUGH TO SUBRECIPIENTS</u>	<u>TOTAL</u>
U.S. DEPARTMENT OF EDUCATION					
PASSED THROUGH FROM:					
Texas Workforce Commission					
Adult Education - Basic Grants to States	84.002A	0818ALAC00	\$ 43,983	\$ 751	\$ 44,734
Adult Education - Basic Grants to States	84.002A	0818ALAC00	5,294	41	5,335
Adult Education - Basic Grants to States	84.002A	0818ALAD00	1,159,783	539,025	1,698,808
Adult Education - Basic Grants to States	84.002A	0818ALAD00	201,631	30,836	232,467
Total U.S. Department of Education			<u>\$ 1,410,691</u>	<u>\$ 570,653</u>	<u>\$ 1,981,344</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES					
PASSED THROUGH FROM:					
TANF Cluster					
Texas Workforce Commission					
Temporary Assistance for Needy Families	93.558	0818ALAC00	\$ 56,008	\$ -	\$ 56,008
Temporary Assistance for Needy Families	93.558	0818ALAD00	105,793	72,243	178,036
Total U.S. Department of Health and Human Services			<u>\$ 161,801</u>	<u>\$ 72,243</u>	<u>\$ 234,044</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,572,492</u>	<u>\$ 642,896</u>	<u>\$ 2,215,388</u>

The accompanying notes are an integral part of this statement.

**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

<u>STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE</u>	<u>PASS - THROUGH GRANTORS NUMBER</u>	<u>LCOT STATE EXPENDITURES</u>	<u>PASSED THROUGH TO SUBRECIPIENTS</u>	<u>TOTAL</u>
U.S. DEPARTMENT OF EDUCATION PASSED THROUGH FROM:				
Texas Workforce Commission				
Adult Education - Basic Grants to States	0818ALAC00	\$ 73,647	\$ 35,209	\$ 108,856
Adult Education - Basic Grants to States	0818ALAD00	<u>88,027</u>	<u>203,845</u>	<u>291,872</u>
Total U.S. Department of Education		<u>161,674</u>	<u>239,054</u>	<u>400,728</u>
TOTAL EXPENDITURES OF STATE AWARDS		<u>\$ 161,674</u>	<u>\$ 239,054</u>	<u>\$ 400,728</u>

The accompanying notes are an integral part of this statement.

LITERACY COUNCIL OF TYLER, INC.
NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULES

Basis of Presentation

The accompanying Schedules of Expenditures of Federal and State Awards (the Schedules) 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 represent funds which have been expended by the Organization for the purposes of the award. The expenditures may not have been reimbursed by the funding agencies as of the year end. Some amounts reported in the Schedules 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.

The Organization utilizes a cost allocation plan and, therefore, does not use the 10% de minimis indirect cost rate.

**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued:	<i>Unmodified</i>
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiencies identified?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiencies identified?	None Reported
Type of auditors’ report issued on compliance for major programs:	<i>Unmodified</i>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Major programs:

FEDERAL

Federal Assistance

<u>Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
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84.002A	Adult Education – Basic Grants to States
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Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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**LITERACY COUNCIL OF TYLER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

Section II – Financial Statement Findings

None.

Section III – Federal Award Findings and Questioned Costs

None

**LITERACY COUNCIL OF TYLER, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2022**

None.