



FIRST LITERACY, INC.
FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

FIRST LITERACY, INC.

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JUNE 30, 2009 AND 2008

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CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
First Literacy, Inc.:

We have audited the accompanying statements of financial position of First Literacy, Inc. (a Massachusetts corporation, not for profit) as of June 30, 2009 and 2008, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of FLit's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Literacy, Inc. as of June 30, 2009 and 2008, 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.

Alexander, Aronson, Finning & Co., P.C.

Wellesley, Massachusetts
October 30, 2009

FIRST LITERACY, INC.

**STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008**

<u>ASSETS</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 163,164	\$ 344,137
Grants and contributions receivable	74,450	11,000
Prepaid expenses	23,578	577
	<hr/>	<hr/>
Total current assets	261,192	355,714
	<hr/>	<hr/>
INVESTMENTS	1,130,116	1,410,598
	<hr/>	<hr/>
FIXED ASSETS:		
Leasehold improvements	40,859	40,859
Computers	19,463	19,463
	<hr/>	<hr/>
	60,322	60,322
Less - accumulated depreciation	25,712	21,218
	<hr/>	<hr/>
Net fixed assets	34,610	39,104
	<hr/>	<hr/>
SECURITY DEPOSIT	2,078	2,078
	<hr/>	<hr/>
CASH HELD IN TRUST	41,737	45,661
	<hr/>	<hr/>
Total assets	<u>\$ 1,469,733</u>	<u>\$ 1,853,155</u>
	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES -		
Accounts payable and accrued expenses	\$ 16,143	\$ 2,751
	<hr/>	<hr/>
CASH HELD IN TRUST	41,737	45,661
	<hr/>	<hr/>
Total liabilities	57,880	48,412
	<hr/>	<hr/>
NET ASSETS:		
Unrestricted -		
Operating	132,128	175,273
Fixed assets	34,610	39,104
Board designated	1,080,116	1,360,597
	<hr/>	<hr/>
Total unrestricted	1,246,854	1,574,974
	<hr/>	<hr/>
Temporarily restricted	114,999	179,769
Permanently restricted	50,000	50,000
	<hr/>	<hr/>
Total net assets	1,411,853	1,804,743
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,469,733</u>	<u>\$ 1,853,155</u>
	<hr/>	<hr/>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009				2008			
	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:								
Grants and contributions	\$ 388,542	\$ -	\$ -	\$ 388,542	\$ 393,416	\$ 57,974	\$ -	\$ 451,390
Special events	102,898	-	-	102,898	99,950	-	-	99,950
Interest, dividends and other	40,853	-	-	40,853	63,611	-	-	63,611
Donated services	18,000	-	-	18,000	15,000	-	-	15,000
Net assets released from program restrictions	64,770	(64,770)	-	-	94,672	(94,672)	-	-
Total operating revenue	615,063	(64,770)	-	550,293	666,649	(36,698)	-	629,951
EXPENSES:								
Program services	464,458	-	-	464,458	506,721	-	-	506,721
Fundraising	150,050	-	-	150,050	159,354	-	-	159,354
General and administrative	27,639	-	-	27,639	28,229	-	-	28,229
Total expenses	642,147	-	-	642,147	694,304	-	-	694,304
Changes in net assets from operations	(27,084)	(64,770)	-	(91,854)	(27,655)	(36,698)	-	(64,353)
LOSS ON INVESTMENTS	(289,971)	-	-	(289,971)	(108,760)	-	-	(108,760)
INVESTMENT MANAGEMENT FEES	(11,065)	-	-	(11,065)	(13,194)	-	-	(13,194)
Changes in net assets	(328,120)	(64,770)	-	(392,890)	(149,609)	(36,698)	-	(186,307)
NET ASSETS, beginning of year	1,574,974	179,769	50,000	1,804,743	1,724,583	216,467	50,000	1,991,050
NET ASSETS, end of year	<u>\$ 1,246,854</u>	<u>\$ 114,999</u>	<u>\$ 50,000</u>	<u>\$ 1,411,853</u>	<u>\$ 1,574,974</u>	<u>\$ 179,769</u>	<u>\$ 50,000</u>	<u>\$ 1,804,743</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	\$ (91,854)	\$ (64,353)
Adjustments to reconcile changes in net assets from operations to net cash used in operating activities:		
Depreciation	4,494	3,187
Changes in operating assets and liabilities -		
Grants and contributions receivable	(63,450)	(11,000)
Prepaid expenses	(23,001)	(577)
Security deposit	-	(366)
Accounts payable and accrued expenses	<u>13,392</u>	<u>711</u>
Net cash used in operating activities	<u>(160,419)</u>	<u>(72,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	-	(40,859)
Investment management fees	(11,065)	(13,194)
Proceeds from sales of investments	452,125	273,426
Purchases of investments	<u>(461,614)</u>	<u>(267,841)</u>
Net cash used in investing activities	<u>(20,554)</u>	<u>(48,468)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(180,973)	(120,866)
CASH AND CASH EQUIVALENTS, beginning of year	<u>344,137</u>	<u>465,003</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 163,164</u></u>	<u><u>\$ 344,137</u></u>
SUPPLEMENTAL INFORMATION -		
Non-cash investing activity -		
Unrealized loss on investments	<u><u>\$ (233,346)</u></u>	<u><u>\$ (125,465)</u></u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

	2009				2008			
	GENERAL AND		ADMINIS- TRATIVE	TOTAL	GENERAL AND		ADMINIS- TRATIVE	TOTAL
	<u>PROGRAM SERVICES</u>	<u>FUND- RAISING</u>			<u>PROGRAM SERVICES</u>	<u>FUND- RAISING</u>		
PERSONNEL AND RELATED:								
Salaries	\$ 107,460	\$ 92,350	\$ 4,990	\$ 204,800	\$ 104,467	\$ 93,771	\$ 4,845	\$ 203,083
Payroll taxes and fringe benefits	24,153	23,479	1,761	49,393	37,110	27,525	1,982	66,617
Contract labor	-	-	-	-	810	810	-	1,620
Total personnel and related	<u>131,613</u>	<u>115,829</u>	<u>6,751</u>	<u>254,193</u>	<u>142,387</u>	<u>122,106</u>	<u>6,827</u>	<u>271,320</u>
FACILITY:								
Occupancy	12,856	12,856	1,069	26,781	14,865	14,864	2,952	32,681
Telephone	1,894	1,730	222	3,846	1,671	1,481	140	3,292
Insurance	<u>520</u>	<u>520</u>	<u>43</u>	<u>1,083</u>	<u>510</u>	<u>510</u>	<u>43</u>	<u>1,063</u>
Total facility	<u>15,270</u>	<u>15,106</u>	<u>1,334</u>	<u>31,710</u>	<u>17,046</u>	<u>16,855</u>	<u>3,135</u>	<u>37,036</u>
OTHER:								
Grants and scholarships	256,500	-	-	256,500	309,474	-	-	309,474
Technical assistance	36,469	-	-	36,469	18,428	-	-	18,428
Professional fees	-	-	18,326	18,326	-	-	15,403	15,403
Donated services	9,000	9,000	-	18,000	7,500	7,500	-	15,000
Printing	3,533	2,347	-	5,880	1,276	2,436	4	3,716
Postage	2,703	2,726	33	5,462	2,917	2,962	28	5,907
Office	2,195	2,401	143	4,739	1,706	4,856	348	6,910
Depreciation	4,494	-	-	4,494	3,187	-	-	3,187
Miscellaneous	1,571	1,571	1,027	4,169	1,595	1,444	931	3,970
Marketing	836	603	25	1,464	705	600	17	1,322
Travel	274	273	-	547	500	499	-	999
Special events	-	194	-	194	-	96	-	96
Moving	-	-	-	-	-	-	1,536	1,536
Total other	<u>317,575</u>	<u>19,115</u>	<u>19,554</u>	<u>356,244</u>	<u>347,288</u>	<u>20,393</u>	<u>18,267</u>	<u>385,948</u>
Total expenses	<u>\$ 464,458</u>	<u>\$ 150,050</u>	<u>\$ 27,639</u>	<u>\$ 642,147</u>	<u>\$ 506,721</u>	<u>\$ 159,354</u>	<u>\$ 28,229</u>	<u>\$ 694,304</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

First Literacy, Inc. (FLit) strengthens adult literacy education in Boston, Massachusetts through grants and technical assistance to adult literacy programs. FLit also awards scholarships to adults who graduate from these programs. FLit receives its support from corporations, the general public, and community and private foundations.

FLit is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. FLit is also exempt from state income taxes. Donors may deduct contributions made to FLit within the Internal Revenue Code regulations.

SIGNIFICANT ACCOUNTING POLICIES

Fixed Assets and Depreciation

Fixed assets having a value of \$1,500 or more and a life of at least three years are capitalized. Fixed assets are recorded at cost when purchased or at fair market value at the time of donation. Improvements are capitalized, while repairs and maintenance are charged to expense as incurred.

Depreciation is provided using the straight-line method over the following estimated useful lives:

Leasehold improvements	Life of the lease
Computers	3 years

Net Assets

The accompanying financial statement presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standard No. 117, *Financial Statements of Not-For-Profit Organizations*. FLit is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by FLit. FLit has grouped its unrestricted net assets into the following categories:

- **Operating** - represent net resources that bear no external restrictions and are generally available for operations.
- **Fixed assets** - represent amounts expended and resources available for fixed assets.
- **Board designated** - represent funds set aside by the Board of Directors for specific purposes. Any use of these funds requires Board approval.

Temporarily restricted net assets - represent funds received with donor restrictions which have not yet been expended for their designated purpose. Temporarily restricted net assets are purpose restricted at June 30, 2009 and 2008.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Permanently restricted net assets - represent funds restricted by the donors against any expenditure of principal. Investment income may be used for the donor specified purpose.

Massachusetts adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. Subject to the intent of a donor, an institution may appropriate for expenditure or accumulate so much of an endowment fund as the institution determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. The assets in an endowment fund are donor-restricted assets until appropriated for expenditure by the institution.

A reconciliation of endowment activity for fiscal year 2009 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment</u>
Endowment net assets, June 30, 2008	\$ -	\$50,000	\$50,000
Investment income	1,478	-	1,478
Appropriation of endowment income for expenditure	<u>(1,478)</u>	<u>-</u>	<u>(1,478)</u>
Endowment net assets, June 30, 2009	<u>\$ -</u>	<u>\$50,000</u>	<u>\$50,000</u>

Revenue Recognition and Expense Allocations

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Donor restricted grants and contributions are reported as increases in temporarily restricted net assets when received and unconditionally pledged. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. Special events revenue is recorded at the time of the event.

Expenses related directly to program services are allocated to that program while other expenses are allocated based upon management's estimate of the percentage attributable to each program.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fundraising

Fundraising expenses are incurred primarily to raise funds for grants, scholarships and other activities which support literacy efforts.

Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market funds.

Donated Services

FLit received donated services of \$18,000 and \$15,000 during fiscal years 2009 and 2008, respectively. The value of the donated services has been included in the accompanying financial statements based upon the value assigned by the donor. These services were provided by the spouse of FLit's Executive Director.

Grants and Scholarships

FLit records grants and scholarships as expenses when all conditions related to the grants and scholarships have been met.

Fair Value Measurement

During fiscal year 2009, FLit adopted Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value under accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements. SFAS 157 establishes a fair value framework that prioritizes the inputs and assumptions used to measure fair value. The three levels of the fair value framework under SFAS 157 are as follows:

Level 1 – Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs other than quoted prices in active markets that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 – Inputs that are unobservable.

A qualifying asset's or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

FLit records its investments at fair market value using Level 1 inputs. Interest, dividends and mutual fund distributions are recorded when earned. Gains and losses are recognized as incurred or based on market value changes during the period (see Note 2). Investments are classified as long-term in the accompanying statements of financial position as it is FLit's intent to hold these investments for long-term purposes.

Adopting SFAS 157 did not result in any change in the measurement of the carrying value of FLit's qualifying assets and liabilities, as they have historically been recorded at market value.

Subsequent Events

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to disclose the date through which subsequent events have been evaluated for possible recognition or disclosure in the accompanying financial statements. Subsequent events are transactions or events that occur after the statement of financial position date, but before the financial statements are issued or available to be issued. The accompanying financial statements include the evaluation of subsequent events that have occurred through October 30, 2009, which is the date the financial statements were available to be issued.

(2) INVESTMENTS

All investments are kept in a portfolio managed by Eaton Vance Investment Management. The following is a summary of the investment portfolio as of June 30:

	<u>2009</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equities		\$ 559,682	\$ 541,993	\$(17,689)
Cash and cash equivalents		398,455	398,455	-
Mutual funds		122,778	97,508	(25,270)
Corporate bonds		<u>90,233</u>	<u>92,160</u>	<u>1,927</u>
		<u>\$1,171,148</u>	<u>\$1,130,116</u>	<u>\$(41,032)</u>
	<u>2008</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Equities		\$1,031,811	\$1,229,213	\$197,402
Cash and cash equivalents		166,631	166,631	-
Mutual funds		<u>19,842</u>	<u>14,754</u>	<u>(5,088)</u>
		<u>\$1,218,284</u>	<u>\$1,410,598</u>	<u>\$192,314</u>

FIRST LITERACY, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008
(Continued)**

(2) INVESTMENTS (Continued)

Unrealized losses for the years ended June 30, 2009 and 2008, were \$233,346 and \$125,465, respectively. Realized gains (losses) for the years ended June 30, 2009 and 2008, were \$(56,625) and \$16,705, respectively.

(3) LEASE AGREEMENTS

In January, 2008, FLit entered into a five-year lease agreement for a new facility. Rent is payable in equal monthly installments of \$2,078. FLit has an option to extend the lease for an additional five years. Prior to January, 2008, FLit leased another facility with rent payable in monthly installments of \$1,706, plus its appropriate share of utilities and other expenses. FLit was responsible for the lease through its expiration in June, 2008. Rent expense under the terms of these leases for the years ended June 30, 2009 and 2008, were \$24,936 and \$32,229, respectively, and is included in occupancy in the accompanying statements of functional expenses.

Future minimum lease payments under the operating lease agreement above are as follows:

2010	\$24,936
2011	\$24,936
2012	\$24,936
2013	\$12,468

(4) PENSION PLAN

FLit has a defined contribution pension plan covering all eligible employees. Employees become eligible to participate upon employment. FLit contributes 5% of each employee's annual salary. For the years ended June 30, 2009 and 2008, pension costs were \$9,390 and \$10,546, respectively, and are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

(5) CASH HELD IN TRUST

FLit acted as a fiscal agent for one nonprofit organization. The accompanying statements of financial position reflect \$41,737 and \$45,661 of cash held in trust by FLit at June 30, 2009 and 2008, respectively.

(6) CONCENTRATIONS

- FLit maintains its cash balances in various banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At times during the year, cash balances may exceed the insured amounts. FLit has not experienced any losses in such accounts. FLit believes it is not exposed to any significant credit risk on its cash and cash equivalents.
- Grant revenue from one funder represented 36% and 23% of total operating revenue for the years ended June 30, 2009 and 2008, respectively.
- One donor represents 94% of account receivable balance at June 30, 2009.

(7) RECLASSIFICATIONS

Certain amounts in the 2008 financial statements have been reclassified to conform with the 2009 presentation.