



read between the lines

FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT

2010
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FIRST LITERACY, INC.

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JUNE 30, 2010 AND 2009

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& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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2010

Audit

023655

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) (FLit) as of June 30, 2010 and 2009, 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 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 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, 2010 and 2009, 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
December 14, 2010

FIRST LITERACY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 AND 2009

| <u>ASSETS</u> | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 153,239 | \$ 163,164 |
| Grants and contributions receivable | 2,500 | 74,450 |
| Prepaid expenses | 4,474 | 23,578 |
| Total current assets | 160,213 | 261,192 |
| INVESTMENTS | 1,155,367 | 1,130,116 |
| FIXED ASSETS: | | |
| Leasehold improvements | 40,859 | 40,859 |
| Computers | 19,463 | 19,463 |
| | 60,322 | 60,322 |
| Less - accumulated depreciation | 30,207 | 25,712 |
| Net fixed assets | 30,115 | 34,610 |
| SECURITY DEPOSIT | 2,078 | 2,078 |
| CASH HELD IN TRUST | 2,681 | 41,737 |
| Total assets | <u>\$ 1,350,454</u> | <u>\$ 1,469,733</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES: | | |
| Grants payable | \$ 22,000 | \$ 6,000 |
| Accounts payable and accrued expenses | 899 | 10,143 |
| Total current liabilities | 22,899 | 16,143 |
| CASH HELD IN TRUST | 2,681 | 41,737 |
| Total liabilities | 25,580 | 57,880 |
| NET ASSETS: | | |
| Unrestricted - | | |
| Operating | 75,302 | 132,128 |
| Fixed assets | 30,115 | 34,610 |
| Board designated | 1,105,367 | 1,080,116 |
| Total unrestricted | 1,210,784 | 1,246,854 |
| Temporarily restricted | 64,090 | 114,999 |
| Permanently restricted | 50,000 | 50,000 |
| Total net assets | 1,324,874 | 1,411,853 |
| Total liabilities and net assets | <u>\$ 1,350,454</u> | <u>\$ 1,469,733</u> |

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, 2010 AND 2009

| | 2010 | | | | 2009 | | | |
|---|---------------------|---------------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------------|---------------------|
| | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL | UNRESTRICTED | TEMPORARILY RESTRICTED | PERMANENTLY RESTRICTED | TOTAL |
| OPERATING REVENUE: | | | | | | | | |
| Grants and contributions | \$ 363,516 | \$ - | \$ - | \$ 363,516 | \$ 388,542 | \$ - | \$ - | \$ 388,542 |
| Special events | 106,034 | - | - | 106,034 | 102,898 | - | - | 102,898 |
| Interest, dividends and other | 31,235 | - | - | 31,235 | 40,853 | - | - | 40,853 |
| Donated goods and services | 6,694 | - | - | 6,694 | 18,000 | - | - | 18,000 |
| Net assets released from program restrictions | 50,909 | (50,909) | - | - | 64,770 | (64,770) | - | - |
| Total operating revenue | 558,388 | (50,909) | - | 507,479 | 615,063 | (64,770) | - | 550,293 |
| EXPENSES: | | | | | | | | |
| Program services | 522,683 | - | - | 522,683 | 464,458 | - | - | 464,458 |
| Fundraising | 142,389 | - | - | 142,389 | 150,050 | - | - | 150,050 |
| General and administrative | 29,660 | - | - | 29,660 | 27,639 | - | - | 27,639 |
| Total expenses | 694,732 | - | - | 694,732 | 642,147 | - | - | 642,147 |
| Changes in net assets from operations | (136,344) | (50,909) | - | (187,253) | (27,084) | (64,770) | - | (91,854) |
| GAIN (LOSS) ON INVESTMENTS | 109,551 | - | - | 109,551 | (289,971) | - | - | (289,971) |
| INVESTMENT MANAGEMENT FEES | (9,277) | - | - | (9,277) | (11,065) | - | - | (11,065) |
| Changes in net assets | (36,070) | (50,909) | - | (86,979) | (328,120) | (64,770) | - | (392,890) |
| NET ASSETS, beginning of year | 1,246,854 | 114,999 | 50,000 | 1,411,853 | 1,574,974 | 179,769 | 50,000 | 1,804,743 |
| NET ASSETS, end of year | <u>\$ 1,210,784</u> | <u>\$ 64,090</u> | <u>\$ 50,000</u> | <u>\$ 1,324,874</u> | <u>\$ 1,246,854</u> | <u>\$ 114,999</u> | <u>\$ 50,000</u> | <u>\$ 1,411,853</u> |

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | <u>2010</u> | <u>2009</u> |
|---|--------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Changes in net assets from operations | \$ (187,253) | \$ (91,854) |
| Adjustments to reconcile changes in net assets from operations to net cash used in operating activities: | | |
| Depreciation | 4,495 | 4,494 |
| Donated stock | (2,000) | - |
| Changes in operating assets and liabilities - | | |
| Grants and contributions receivable | 71,950 | (63,450) |
| Prepaid expenses | 19,104 | (23,001) |
| Grants payable | 16,000 | - |
| Accounts payable and accrued expenses | <u>(9,244)</u> | <u>13,392</u> |
| Net cash used in operating activities | <u>(86,948)</u> | <u>(160,419)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment management fees | (9,277) | (11,065) |
| Proceeds from sales of investments | 370,786 | 452,125 |
| Purchases of investments | <u>(284,486)</u> | <u>(461,614)</u> |
| Net cash provided by (used in) investing activities | <u>77,023</u> | <u>(20,554)</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | <u>(9,925)</u> | <u>(180,973)</u> |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>163,164</u> | <u>344,137</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u><u>\$ 153,239</u></u> | <u><u>\$ 163,164</u></u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Non-cash investing activity - | | |
| Unrealized gain (loss) on investments | <u><u>\$ 109,394</u></u> | <u><u>\$ (233,346)</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, 2010 AND 2009

| | 2010 | | | | 2009 | | | |
|-----------------------------------|---------------------|------------------|---------------------------------------|------------|---------------------|------------------|---------------------------------------|------------|
| | PROGRAM SERVICES | FUND- RAISING | GENERAL AND ADMINIS- TRATIVE | TOTAL | PROGRAM SERVICES | FUND- RAISING | GENERAL AND ADMINIS- TRATIVE | TOTAL |
| GRANTS AND AWARDS: | | | | | | | | |
| Grants and scholarships | \$ 294,500 | \$ - | \$ - | \$ 294,500 | \$ 256,500 | \$ - | \$ - | \$ 256,500 |
| Technical assistance | 44,215 | - | - | 44,215 | 36,469 | - | - | 36,469 |
| Total grants and awards | 338,715 | - | - | 338,715 | 292,969 | - | - | 292,969 |
| PERSONNEL AND RELATED: | | | | | | | | |
| Salaries | 103,686 | 74,505 | 6,786 | 184,977 | 107,460 | 92,350 | 4,990 | 204,800 |
| Payroll taxes and fringe benefits | 31,707 | 22,783 | 2,075 | 56,565 | 24,153 | 23,479 | 1,761 | 49,393 |
| Contract labor | 5,750 | 5,750 | - | 11,500 | - | - | - | - |
| Total personnel and related | 141,143 | 103,038 | 8,861 | 253,042 | 131,613 | 115,829 | 6,751 | 254,193 |
| FACILITY: | | | | | | | | |
| Occupancy | 12,739 | 12,739 | 1,147 | 26,625 | 12,856 | 12,856 | 1,069 | 26,781 |
| Telephone | 2,173 | 1,891 | 139 | 4,203 | 1,894 | 1,730 | 222 | 3,846 |
| Insurance | 521 | 521 | 44 | 1,086 | 520 | 520 | 43 | 1,083 |
| Total facility | 15,433 | 15,151 | 1,330 | 31,914 | 15,270 | 15,106 | 1,334 | 31,710 |
| OTHER: | | | | | | | | |
| Marketing | 9,790 | 9,736 | 56 | 19,582 | 836 | 603 | 25 | 1,464 |
| Professional fees | - | - | 18,072 | 18,072 | - | - | 18,326 | 18,326 |
| Office | 3,052 | 4,291 | 252 | 7,595 | 2,195 | 2,401 | 143 | 4,739 |
| Miscellaneous | 4,039 | 1,052 | 939 | 6,030 | 1,571 | 1,571 | 1,027 | 4,169 |
| Donated services | 2,347 | 2,347 | - | 4,694 | 9,000 | 9,000 | - | 18,000 |
| Depreciation | 4,495 | - | - | 4,495 | 4,494 | - | - | 4,494 |
| Printing | 1,624 | 2,355 | 82 | 4,061 | 3,533 | 2,347 | - | 5,880 |
| Postage | 1,521 | 2,244 | 38 | 3,803 | 2,703 | 2,726 | 33 | 5,462 |
| Special events | - | 1,651 | - | 1,651 | - | 194 | - | 194 |
| Travel | 524 | 524 | 30 | 1,078 | 274 | 273 | - | 547 |
| Total other | 27,392 | 24,200 | 19,469 | 71,061 | 24,606 | 19,115 | 19,554 | 63,275 |
| Total expenses | \$ 522,683 | \$ 142,389 | \$ 29,660 | \$ 694,732 | \$ 464,458 | \$ 150,050 | \$ 27,639 | \$ 642,147 |

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009

(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

FLit prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these footnotes are to the FASB Accounting Standards Codification.

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:

| | |
|------------------------|-------------------|
| Leaschold improvements | Life of the lease |
| Computers | 3 years |

Net Assets

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, 2010 and 2009.

FIRST LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(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 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 | - | 50,000 | 50,000 |
| Investment income | 1,434 | - | 1,434 |
| Appropriation of endowment income for expenditure | <u>(1,434)</u> | <u>-</u> | <u>(1,434)</u> |
| Endowment net assets, June 30, 2010 | <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. All other revenue is recorded when earned.

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.

Cash and Cash Equivalents

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

FIRST LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

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

Donated Goods and Services

FLit received donated stock having a fair market value of approximately \$2,000 during fiscal year 2010. FLit received donated services of \$4,494 and \$18,000 during the years ended June 30, 2010 and 2009, respectively. The value of the donated goods and services has been included in the accompanying financial statements based upon the value assigned by the donor.

Grants and Scholarships

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

Fair Value Measurements

FLit follows the *Fair Value Measurements and Disclosures* standards. These standards define fair value, establish a framework for measuring fair value under U.S. GAAP, and expand disclosures about fair value measurements. This policy establishes a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value. FLit values its qualifying assets and liabilities using Level I inputs. Level I inputs reflect unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date. A qualifying asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Investments

Investments are valued at fair market value. 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.

Subsequent Events

The preparation of financial statements in accordance with U.S. GAAP 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 December 14, 2010, which is the date the financial statements were available to be issued.

FIRST LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010 AND 2009
(Continued)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Uncertainty in Income Taxes

FLit adopted the U.S. GAAP standards for *Accounting for Uncertainty in Income Taxes* during fiscal year 2010, which required FLit to report any uncertain tax positions and to adjust its financial statements for the impact thereof. As of June 30, 2010, FLit determined that it had no material unrecognized tax benefits to report. FLit files Federal and Massachusetts information returns. These returns are generally subject to examination by tax authorities for the last three years. FLit does not expect that the amounts of unrecognized tax benefits will change significantly within the next twelve months.

(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>2010</u> | <u>Cost</u> | <u>Market Value</u> | <u>Unrealized Appreciation (Depreciation)</u> |
|---------------------------|--------------------|---------------------|---|
| Equities | \$ 593,474 | \$ 663,769 | \$ 70,295 |
| Cash and cash equivalents | 65,267 | 65,267 | - |
| Mutual funds | 349,972 | 347,218 | (2,754) |
| Corporate bonds | <u>78,292</u> | <u>79,113</u> | <u>821</u> |
| | <u>\$1,087,005</u> | <u>\$1,155,367</u> | <u>\$ 68,362</u> |
| <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> |

Investments are not insured and are subject to market fluctuations. All investment fair market values have been provided by investment managers.

Unrealized gains (losses) for the years ended June 30, 2010 and 2009, were \$109,394 and \$(233,346), respectively. Realized gains (losses) for the years ended June 30, 2010 and 2009, were \$157 and \$(56,625), respectively.

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(3)

Remaining minimum lease payments are as follows:

(4)

(5)

(6)

(7)

- 10 -