



**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
TOGETHER WITH
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

FIRST LITERACY, INC.

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JUNE 30, 2011 AND 2010

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying statement of financial position of First Literacy, Inc. (a Massachusetts corporation, not for profit) (FLit) as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of FLit's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The financial statements for the year ended June 30, 2010, were audited by us and we expressed an unqualified opinion on them in our report dated December 14, 2010, but we have not performed any auditing procedures since that date.

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

Wellesley, Massachusetts
January 24, 2012

FIRST LITERACY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2011 AND 2010

(See Independent Accountants' Review Report)

<u>ASSETS</u>	<u>2011</u> (Reviewed)	<u>2010</u> (Audited)
CURRENT ASSETS:		
Cash and cash equivalents	\$ 40,642	\$ 153,239
Contributions receivable	1,050	2,500
Prepaid expenses	1,164	4,474
	<hr/>	<hr/>
Total current assets	42,856	160,213
	<hr/>	<hr/>
INVESTMENTS	1,216,878	1,155,367
	<hr/>	<hr/>
FIXED ASSETS:		
Leasehold improvements	40,859	40,859
Computers	19,463	19,463
	<hr/>	<hr/>
	60,322	60,322
Less - accumulated depreciation	33,885	30,207
	<hr/>	<hr/>
Net fixed assets	26,437	30,115
	<hr/>	<hr/>
SECURITY DEPOSIT	2,078	2,078
	<hr/>	<hr/>
CASH HELD IN TRUST	-	2,681
	<hr/>	<hr/>
Total assets	<u>\$ 1,288,249</u>	<u>\$ 1,350,454</u>
	<hr/>	<hr/>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Grants payable	\$ 15,000	\$ 22,000
Accounts payable and accrued expenses	12,153	899
	<hr/>	<hr/>
Total current liabilities	27,153	22,899
	<hr/>	<hr/>
CASH HELD IN TRUST	-	2,681
	<hr/>	<hr/>
Total liabilities	27,153	25,580
	<hr/>	<hr/>
NET ASSETS:		
Unrestricted:		
Operating	1,831	75,302
Fixed assets	26,437	30,115
Board designated	1,152,878	1,105,367
	<hr/>	<hr/>
Total unrestricted	1,181,146	1,210,784
	<hr/>	<hr/>
Temporarily restricted	29,950	64,090
Permanently restricted	50,000	50,000
	<hr/>	<hr/>
Total net assets	1,261,096	1,324,874
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,288,249</u>	<u>\$ 1,350,454</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, 2011 AND 2010**
(See Independent Accountants' Review Report)

	2011 (Reviewed)				2010 (Audited)			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:								
Spelling Bee	\$ 205,595	\$ -	\$ -	\$ 205,595	\$ 106,034	\$ -	\$ -	\$ 106,034
Grants and contributions	144,431	9,846	-	154,277	363,516	-	-	363,516
Interest, dividends and other	34,782	-	-	34,782	31,235	-	-	31,235
Donated goods and services	22,866	-	-	22,866	6,694	-	-	6,694
Net assets released from program restrictions	43,986	(43,986)	-	-	50,909	(50,909)	-	-
Total operating revenue	451,660	(34,140)	-	417,520	558,388	(50,909)	-	507,479
EXPENSES:								
Program services	479,272	-	-	479,272	522,683	-	-	522,683
Fundraising	83,624	-	-	83,624	142,389	-	-	142,389
General and administrative	123,882	-	-	123,882	29,660	-	-	29,660
Total expenses	686,778	-	-	686,778	694,732	-	-	694,732
Changes in net assets from operations	(235,118)	(34,140)	-	(269,258)	(136,344)	(50,909)	-	(187,253)
GAIN ON INVESTMENTS	214,909	-	-	214,909	109,551	-	-	109,551
INVESTMENT FEES	(9,429)	-	-	(9,429)	(9,277)	-	-	(9,277)
Changes in net assets	(29,638)	(34,140)	-	(63,778)	(36,070)	(50,909)	-	(86,979)
NET ASSETS, beginning of year	1,210,784	64,090	50,000	1,324,874	1,246,854	114,999	50,000	1,411,853
NET ASSETS, end of year	<u>\$ 1,181,146</u>	<u>\$ 29,950</u>	<u>\$ 50,000</u>	<u>\$ 1,261,096</u>	<u>\$ 1,210,784</u>	<u>\$ 64,090</u>	<u>\$ 50,000</u>	<u>\$ 1,324,874</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010
(See Independent Accountants' Review Report)

	<u>2011</u> (Reviewed)	<u>2010</u> (Audited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	\$ (269,258)	\$ (187,253)
Adjustments to reconcile changes in net assets from operations to net cash used in operating activities:		
Depreciation	3,678	4,495
Donated stock	(1,949)	(2,000)
Changes in operating assets and liabilities:		
Contributions receivable	1,450	71,950
Prepaid expenses	3,310	19,104
Grants payable	(7,000)	16,000
Accounts payable and accrued expenses	<u>11,254</u>	<u>(9,244)</u>
Net cash used in operating activities	<u>(258,515)</u>	<u>(86,948)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment fees	(9,429)	(9,277)
Proceeds from sales of investments	160,659	370,786
Purchases of investments	<u>(5,312)</u>	<u>(284,486)</u>
Net cash provided by investing activities	<u>145,918</u>	<u>77,023</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(112,597)	(9,925)
CASH AND CASH EQUIVALENTS, beginning of year	<u>153,239</u>	<u>163,164</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 40,642</u></u>	<u><u>\$ 153,239</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash investing activity:		
Unrealized gain on investments	<u><u>\$ 193,133</u></u>	<u><u>\$ 109,394</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, 2011 AND 2010**
(See Independent Accountants' Review Report)

	2011 (Reviewed)				2010 (Audited)			
	<u>PROGRAM SERVICES</u>	<u>FUND- RAISING</u>	<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>TOTAL</u>	<u>PROGRAM SERVICES</u>	<u>FUND- RAISING</u>	<u>GENERAL AND ADMINIS- TRATIVE</u>	<u>TOTAL</u>
GRANTS AND AWARDS:								
Grants	\$ 261,000	\$ -	\$ -	\$ 261,000	\$ 272,500	\$ -	\$ -	\$ 272,500
Scholarships	15,000	-	-	15,000	22,000	-	-	22,000
Technical assistance	11,552	-	-	11,552	44,215	-	-	44,215
Literacy awareness	10,381	-	-	10,381	-	-	-	-
Total grants and awards	297,933	-	-	297,933	338,715	-	-	338,715
PERSONNEL AND RELATED:								
Salaries	119,541	26,823	60,364	206,728	103,686	74,505	6,786	184,977
Payroll taxes and fringe benefits	22,406	6,214	19,841	48,461	31,707	22,783	2,075	56,565
Contract services	-	3,988	-	3,988	5,750	5,750	-	11,500
Total personnel and related	141,947	37,025	80,205	259,177	141,143	103,038	8,861	253,042
FACILITY:								
Occupancy	19,889	8,577	1,225	29,691	12,739	12,739	1,147	26,625
Telephone	2,936	345	173	3,454	2,173	1,891	139	4,203
Insurance	679	305	44	1,028	521	521	44	1,086
Total facility	23,504	9,227	1,442	34,173	15,433	15,151	1,330	31,914
OTHER:								
Professional fees	2,513	-	37,310	39,823	-	-	18,072	18,072
Donated services	2,743	13,776	4,398	20,917	2,347	2,347	-	4,694
Office	4,631	8,899	196	13,726	3,052	4,291	252	7,595
Program events	-	6,044	-	6,044	-	1,651	-	1,651
Depreciation	2,501	1,030	147	3,678	4,495	-	-	4,495
Printing	2,038	1,193	-	3,231	1,624	2,355	82	4,061
Miscellaneous	-	3,059	143	3,202	4,039	1,052	939	6,030
Marketing	1,097	1,865	-	2,962	9,790	9,736	56	19,582
Postage	365	1,506	41	1,912	1,521	2,244	38	3,803
Travel	-	-	-	-	524	524	30	1,078
Total other	15,888	37,372	42,235	95,495	27,392	24,200	19,469	71,061
Total expenses	<u>\$ 479,272</u>	<u>\$ 83,624</u>	<u>\$ 123,882</u>	<u>\$ 686,778</u>	<u>\$ 522,683</u>	<u>\$ 142,389</u>	<u>\$ 29,660</u>	<u>\$ 694,732</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(See Independent Accountants' Review Report)

(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 expensed 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

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, 2011 and 2010.

FIRST LITERACY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010
(See Independent Accountants' Review Report)
(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.

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, 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	-	50,000	50,000
Investment income	1,571	-	1,571
Appropriation of endowment income for expenditure	<u>(1,571)</u>	<u>-</u>	<u>(1,571)</u>
Endowment net assets, June 30, 2011	<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. Spelling Bee 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.

Grants and Scholarships

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

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(See Independent Accountants' Review Report)

(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.

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 mandate 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

Subsequent events have been evaluated through January 24, 2012, which is the date the financial statements were available to be issued.

Uncertainty in Income Taxes

FLit follows the U.S. GAAP standards for *Accounting for Uncertainty in Income Taxes*, which requires FLit to report any uncertain tax positions and to adjust its financial statements for the impact thereof. As of June 30, 2011, 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

The majority of investments are kept in a portfolio managed by Eaton Vance Investment Management. Investments are not insured and are subject to market fluctuations. All investment fair market values have been provided by investment managers.

FIRST LITERACY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011 AND 2010

(See Independent Accountants' Review Report)

(Continued)

(2) INVESTMENTS (Continued)

The following is a summary of the investment portfolio:

<u>2011</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 23,475	\$ 23,475	\$ -
Fixed income:			
Corporate bonds	78,617	81,159	2,542
Mutual funds:			
High grade securities	167,404	170,447	3,043
Other mutual funds	120,936	120,544	(392)
Total fixed income	<u>366,957</u>	<u>372,150</u>	<u>5,193</u>
Equities:			
Consumer services and non-durables	121,070	152,594	31,524
Mutual funds	104,284	148,066	43,782
Capital goods	73,293	144,465	71,172
Energy	41,449	89,784	48,335
Financial	48,019	63,100	15,081
All other equities	32,270	40,383	8,113
Total equities	<u>420,385</u>	<u>638,392</u>	<u>218,007</u>
Foreign assets	<u>144,566</u>	<u>182,861</u>	<u>38,295</u>
	<u>\$ 955,383</u>	<u>\$1,216,878</u>	<u>\$261,495</u>
<u>2010</u>	<u>Cost</u>	<u>Market Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
Cash and cash equivalents	\$ 65,267	\$ 65,267	\$ -
Fixed income:			
Corporate bonds	78,292	79,113	821
Mutual funds:			
High grade securities	165,000	168,353	3,353
Other mutual funds	184,972	178,866	(6,106)
Total fixed income	<u>428,264</u>	<u>426,332</u>	<u>(1,932)</u>
Equities:			
Consumer services and non-durables	143,609	150,993	7,384
Mutual funds	94,247	96,105	1,858
Capital goods	67,188	98,216	31,028
Energy	48,647	71,084	22,437
Financial	45,493	47,974	2,481
All other equities	50,063	52,555	2,492
Total equities	<u>449,247</u>	<u>516,927</u>	<u>67,680</u>
Foreign assets	<u>144,227</u>	<u>146,841</u>	<u>2,614</u>
	<u>\$1,087,005</u>	<u>\$1,155,367</u>	<u>\$ 68,362</u>

FIRST LITERACY, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

(See Independent Accountants' Review Report)
(Continued)

(2) INVESTMENTS (Continued)

Unrealized gains for the years ended June 30, 2011 and 2010, were \$193,133 and \$109,394, respectively. Realized gains for the years ended June 30, 2011 and 2010, were \$21,776 and \$157, respectively.

(3) LEASE AGREEMENT

FLit leases its facility under a five-year lease agreement which expires in December, 2012. Rent is payable in equal monthly installments of \$2,078. FLit has an option to extend the lease for an additional five years. Rent expense under the terms of the lease for the years ended June 30, 2011 and 2010, was \$24,936, and is included in occupancy in the accompanying statements of functional expenses.

Remaining minimum lease payments are as follows:

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 after three months of employment. FLit contributes 5% of each employee's annual salary. For the years ended June 30, 2011 and 2010, pension costs were \$8,045 and \$9,074, respectively, and are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

(5) DONATED GOODS AND SERVICES

FLit receives donated goods and services in support of various aspects of its programs. The value of the donated goods and services has been included in the accompanying financial statements based upon the value assigned by the donor. During fiscal years ended June 30, 2011 and 2010, FLit received the following donated goods and services:

	<u>2011</u>	<u>2010</u>
Donated meals	\$14,804	\$1,519
Donated computers and IT services	6,113	2,975
Donated stock	<u>1,949</u>	<u>2,000</u>
	<u>\$22,866</u>	<u>\$6,494</u>

(6) CASH HELD IN TRUST

FLit acted as a fiscal agent for a nonprofit organization. The accompanying statements of financial position reflect \$2,681 of cash held in trust by FLit at June 30, 2010.

FIRST LITERACY, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

(See Independent Accountants' Review Report)
(Continued)

(7) CONCENTRATIONS

Grant revenue from one funder represented 23% of total operating revenue for the year ended June 30, 2010.

(8) RECLASSIFICATIONS

Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation.