



**FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011  
TOGETHER WITH  
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

**FIRST LITERACY, INC.**

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**JUNE 30, 2012 AND 2011**

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying statements of financial position of First Literacy, Inc. (FLit) (a Massachusetts not for profit corporation) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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 reviews, 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.

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

Wellesley, Massachusetts  
January 2, 2013

**FIRST LITERACY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2012 AND 2011**

(See Independent Accountants' Review Report)

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 59,028	\$ 40,642
Contributions receivable	13,055	1,050
Prepaid expenses	1,004	1,164
	<hr/>	<hr/>
Total current assets	73,087	42,856
	<hr/>	<hr/>
<b>INVESTMENTS</b>	966,422	1,216,878
	<hr/>	<hr/>
<b>FIXED ASSETS:</b>		
Leasehold improvements	40,859	40,859
Computers	3,688	19,463
	<hr/>	<hr/>
	44,547	60,322
Less - accumulated depreciation	22,196	33,885
	<hr/>	<hr/>
Net fixed assets	22,351	26,437
	<hr/>	<hr/>
<b>SECURITY DEPOSIT</b>	2,078	2,078
	<hr/>	<hr/>
Total assets	<u>\$ 1,063,938</u>	<u>\$ 1,288,249</u>
	<hr/>	<hr/>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Grants payable	\$ 16,000	\$ 15,000
Accounts payable and accrued expenses	5,625	12,153
	<hr/>	<hr/>
Total current liabilities	21,625	27,153
	<hr/>	<hr/>
<b>NET ASSETS:</b>		
Unrestricted:		
Operating	38,590	1,831
Fixed assets	22,351	26,437
Board designated	916,422	1,152,878
	<hr/>	<hr/>
Total unrestricted	977,363	1,181,146
	<hr/>	<hr/>
Temporarily restricted	14,950	29,950
Permanently restricted	50,000	50,000
	<hr/>	<hr/>
Total net assets	1,042,313	1,261,096
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 1,063,938</u>	<u>\$ 1,288,249</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, 2012 AND 2011**  
(See Independent Accountants' Review Report)

	2012				2011			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUE:</b>								
Spelling Bee	\$ 218,505	\$ -	\$ -	\$ 218,505	\$ 205,595	\$ -	\$ -	\$ 205,595
Grants and contributions	135,432	10,531	-	145,963	144,431	9,846	-	154,277
Interest and dividends	31,152	-	-	31,152	34,782	-	-	34,782
Donated goods and services	26,999	-	-	26,999	22,866	-	-	22,866
Net assets released from program restrictions	25,531	(25,531)	-	-	43,986	(43,986)	-	-
Total operating revenue	437,619	(15,000)	-	422,619	451,660	(34,140)	-	417,520
<b>EXPENSES:</b>								
Program services	478,679	-	-	478,679	479,272	-	-	479,272
Fundraising	85,600	-	-	85,600	83,624	-	-	83,624
General and administrative	45,648	-	-	45,648	123,882	-	-	123,882
Total expenses	609,927	-	-	609,927	686,778	-	-	686,778
Changes in net assets from operations	(172,308)	(15,000)	-	(187,308)	(235,118)	(34,140)	-	(269,258)
<b>GAIN (LOSS) ON INVESTMENTS</b>	(23,387)	-	-	(23,387)	214,909	-	-	214,909
<b>INVESTMENT FEES</b>	(8,088)	-	-	(8,088)	(9,429)	-	-	(9,429)
Changes in net assets	(203,783)	(15,000)	-	(218,783)	(29,638)	(34,140)	-	(63,778)
<b>NET ASSETS, beginning of year</b>	1,181,146	29,950	50,000	1,261,096	1,210,784	64,090	50,000	1,324,874
<b>NET ASSETS, end of year</b>	<u>\$ 977,363</u>	<u>\$ 14,950</u>	<u>\$ 50,000</u>	<u>\$ 1,042,313</u>	<u>\$ 1,181,146</u>	<u>\$ 29,950</u>	<u>\$ 50,000</u>	<u>\$ 1,261,096</u>

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

**FIRST LITERACY, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**  
(See Independent Accountants' Review Report)

	<u><b>2012</b></u>	<u><b>2011</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets from operations	\$ (187,308)	\$ (269,258)
Adjustments to reconcile changes in net assets from operations to net cash used in operating activities:		
Depreciation	4,086	3,678
Donated securities	(2,945)	(1,949)
Changes in operating assets and liabilities:		
Contributions receivable	(12,005)	1,450
Prepaid expenses	160	3,310
Grants payable	1,000	(7,000)
Accounts payable and accrued expenses	<u>(6,528)</u>	<u>11,254</u>
Net cash used in operating activities	<u>(203,540)</u>	<u>(258,515)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment fees	(8,088)	(9,429)
Proceeds from sales of investments	245,007	160,659
Purchases of investments	<u>(14,993)</u>	<u>(5,312)</u>
Net cash provided by investing activities	<u>221,926</u>	<u>145,918</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	18,386	(112,597)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>40,642</u>	<u>153,239</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 59,028</u></u>	<u><u>\$ 40,642</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Non-cash investing activity:		
Cost basis of fully depreciated disposed property	<u><u>\$ 15,775</u></u>	<u><u>\$ -</u></u>
Unrealized gain (loss) on investments	<u><u>\$ (34,662)</u></u>	<u><u>\$ 193,133</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, 2012 AND 2011**

(See Independent Accountants' Review Report)

	2012				2011			
	<u>PROGRAM</u> <u>SERVICES</u>	<u>FUND-</u> <u>RAISING</u>	<u>GENERAL</u> <u>AND</u> <u>ADMINIS-</u> <u>TRATIVE</u>	<u>TOTAL</u>	<u>PROGRAM</u> <u>SERVICES</u>	<u>FUND-</u> <u>RAISING</u>	<u>GENERAL</u> <u>AND</u> <u>ADMINIS-</u> <u>TRATIVE</u>	<u>TOTAL</u>
<b>GRANTS AND AWARDS:</b>								
Grants	\$ 239,000	\$ -	\$ -	\$ 239,000	\$ 261,000	\$ -	\$ -	\$ 261,000
Scholarships	15,100	-	-	15,100	15,000	-	-	15,000
Literacy awareness	9,374	-	-	9,374	10,041	-	-	10,041
Technical assistance	2,391	-	-	2,391	11,552	-	-	11,552
Mentor stipends	1,700	-	-	1,700	-	-	-	-
Total grants and awards	<u>267,565</u>	<u>-</u>	<u>-</u>	<u>267,565</u>	<u>297,593</u>	<u>-</u>	<u>-</u>	<u>297,593</u>
<b>PERSONNEL AND RELATED:</b>								
Salaries	139,275	38,125	19,105	196,505	119,541	26,823	60,364	206,728
Payroll taxes and fringe benefits	22,923	6,721	3,060	32,704	22,406	6,214	19,701	48,321
Contract services	-	4,184	-	4,184	-	3,988	-	3,988
Total personnel and related	<u>162,198</u>	<u>49,030</u>	<u>22,165</u>	<u>233,393</u>	<u>141,947</u>	<u>37,025</u>	<u>80,065</u>	<u>259,037</u>
<b>FACILITY:</b>								
Occupancy	24,749	3,538	1,474	29,761	21,563	9,266	884	31,713
Telephone	2,621	435	145	3,201	3,276	345	173	3,794
Insurance	618	169	56	843	679	305	44	1,028
Total facility	<u>27,988</u>	<u>4,142</u>	<u>1,675</u>	<u>33,805</u>	<u>25,518</u>	<u>9,916</u>	<u>1,101</u>	<u>36,535</u>
<b>OTHER:</b>								
Professional fees	3,328	2,673	18,879	24,880	2,513	7,395	37,706	47,614
Donated services	7,988	15,650	416	24,054	2,743	13,776	4,398	20,917
Program events	224	6,635	-	6,859	210	6,362	-	6,572
Printing	956	2,777	1,404	5,137	2,038	1,193	-	3,231
Depreciation	3,269	613	204	4,086	2,501	1,030	147	3,678
Marketing	1,977	1,419	372	3,768	887	1,547	-	2,434
Office	2,584	485	111	3,180	2,957	815	141	3,913
Miscellaneous	-	1,307	365	1,672	-	3,059	283	3,342
Postage	602	869	57	1,528	365	1,506	41	1,912
Total other	<u>20,928</u>	<u>32,428</u>	<u>21,808</u>	<u>75,164</u>	<u>14,214</u>	<u>36,683</u>	<u>42,716</u>	<u>93,613</u>
Total expenses	<u>\$ 478,679</u>	<u>\$ 85,600</u>	<u>\$ 45,648</u>	<u>\$ 609,927</u>	<u>\$ 479,272</u>	<u>\$ 83,624</u>	<u>\$ 123,882</u>	<u>\$ 686,778</u>

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

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(See Independent Accountants' Review Report)

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

**OPERATIONS AND NONPROFIT STATUS**

First Literacy, Inc. (FLit) opens life-changing educational opportunities for adults and their families in Greater Boston, Massachusetts, by supporting adult learners and the Adult Basic Education (ABE) programs which provide them with literacy classes and related services. FLit offers professional development workshops for adult educators and project grants for ABE providers. FLit also awards scholarships to adults who have completed their basic education and are continuing on to college or advanced skills training. The literacy awareness activities sponsored by FLit are designed to increase the public's understanding of the importance of adult literacy education and the need for additional resources to ensure that every adult who needs to receive literacy education is able to do so. 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 (IRC). FLit is also exempt from state income taxes. Donors may deduct contributions made to FLit within the IRC 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, 2012 and 2011.



**FIRST LITERACY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

(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, 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	-	50,000	50,000
Investment income	1,153	-	1,153
Appropriation of endowment income for expenditure	<u>(1,153)</u>	<u>-</u>	<u>(1,153)</u>
Endowment net assets, June 30, 2012	<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.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(See Independent Accountants' Review Report)  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Grants and Scholarships

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

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.

Contributions Receivable

Contributions receivable consists of amounts committed to FLit. No allowance was deemed necessary at June 30, 2012 and 2011, respectively. The reserve is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible. Accounts are written off when they are determined to be uncollectible.

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 2, 2013, which is the date the financial statements were available to be issued.

**FIRST LITERACY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2012 AND 2011**

(See Independent Accountants' Review Report)  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, 2012, 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 a professional investment management company and held by an independent custodial bank. Investments are not insured and are subject to market fluctuations. All investment fair market values have been provided by investment managers.

The following is a summary of the investment portfolio:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	\$ 9,980	\$ 23,475
Fixed income:		
Mutual funds:		
High grade securities	145,268	170,447
Other mutual funds	71,826	120,544
Corporate bonds	-	81,159
Total fixed income	<u>217,094</u>	<u>372,150</u>
Equities:		
Mutual funds	185,606	148,066
Consumer services and non-durables	166,868	152,594
Capital goods	162,194	144,465
Energy	86,791	89,784
All other equities	<u>61,164</u>	<u>103,483</u>
Total equities	<u>662,623</u>	<u>638,392</u>
Foreign assets	<u>76,725</u>	<u>182,861</u>
	<u>\$966,422</u>	<u>\$1,216,878</u>

Unrealized gains (losses) for the years ended June 30, 2012 and 2011, were \$(34,662) and \$193,133, respectively. Realized gains for the years ended June 30, 2012 and 2011, were \$11,275 and \$21,776, respectively.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2012 AND 2011**  
(See Independent Accountants' Review Report)  
(Continued)

**(3) LEASE AGREEMENT**

FLit leases its facility under a five-year lease agreement which expired in December, 2012. FLit has an option to extend the lease for an additional five years. As of January 2, 2013, the lease renewal is in negotiation. Rent is payable in equal monthly installments of \$2,078. Rent expense under the terms of the lease for each of the years ended June 30, 2012 and 2011, was \$24,932 and is included in occupancy in the accompanying statements of functional expenses. The remaining minimum lease payments for fiscal year 2013 are \$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, 2012 and 2011, pension costs were \$9,225 and \$8,045, 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. The value of donated securities is recorded at fair market value at date of receipt. During the fiscal years ended June 30, 2012 and 2011, FLit received the following donated goods and services:

	<u><b>2012</b></u>	<u><b>2011</b></u>
Donated food for events	\$18,219	\$14,804
Donated computers and IT services	5,835	6,113
Donated securities	<u>2,945</u>	<u>1,949</u>
	<u><b>\$26,999</b></u>	<u><b>\$22,866</b></u>

**(6) RECLASSIFICATIONS**

Certain amounts in the June 30, 2011 financial statements have been reclassified to conform with the June 30, 2012 presentation.