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FINANCIAL STATEMENTS
JUNE 30, 2013 AND 2012
TOGETHER WITH
INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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2013

FIRST LITERACY, INC.

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2013 Review

Alexander Aronson Finning
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS ADVISORS

Where Every Client Is A Valued Client

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

21 East Main Street, Westborough, MA 01581-1461 (508) 366-9100
Boston, MA (617) 205-9100 Wellesley, MA (781) 965-9100
www.aafcpa.com FAX (508) 366-9789 info@aafcpa.com

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 nonprofit corporation) as of June 30, 2013 and 2012, 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.

Boston, Massachusetts
January 8, 2014

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FIRST LITERACY, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012
(See Independent Accountants' Review Report)

ASSETS	2013	2012
CURRENT ASSETS:		
Cash and cash equivalents	$ 84,712	$ 59,028
Contributions receivable	7,050	13,055
Prepaid expenses	330	1,004
Total current assets	92,092	73,087
INVESTMENTS	830,537	966,422
PROPERTY AND EQUIPMENT:		
Leasehold improvements	40,859	40,859
Computers	3,688	3,688
	44,547	44,547
Less - accumulated depreciation	26,282	22,196
Net property and equipment	18,265	22,351
SECURITY DEPOSIT	2,078	2,078
Total assets	$ 942,972	$ 1,063,938
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Grants payable	$ 14,700	$ 16,000
Accounts payable and accrued expenses	6,164	5,625
Total current liabilities	20,864	21,625
NET ASSETS:		
Unrestricted:		
Operating	73,306	38,590
Property and equipment	18,265	22,351
Board designated	780,537	916,422
Total unrestricted	872,108	977,363
Temporarily restricted	-	14,950
Permanently restricted	50,000	50,000
Total net assets	922,108	1,042,313
Total liabilities and net assets	$ 942,972	$ 1,063,938

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, 2013 AND 2012
(See Independent Accountants' Review Report)

	2013				2012			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
OPERATING REVENUE:								
Spelling bee	$ 204,723	$ -	$ -	$ 204,723	$ 218,505	$ -	$ -	$ 218,505
Grants and contributions	175,145	6,786	-	181,931	135,432	10,531	-	145,963
Interest and dividends	28,749	-	-	28,749	31,152	-	-	31,152
Donated goods and services	28,748	-	-	28,748	26,999	-	-	26,999
Net assets released from program restrictions	21,736	(21,736)	-	-	25,531	(25,531)	-	-
Total operating revenue	459,101	(14,950)	-	444,151	437,619	(15,000)	-	422,619
EXPENSES:								
Program services	480,237	-	-	480,237	476,186	-	-	476,186
Fundraising	99,781	-	-	99,781	88,093	-	-	88,093
General and administrative	45,548	-	-	45,548	45,648	-	-	45,648
Total expenses	625,566	-	-	625,566	609,927	-	-	609,927
Changes in net assets from operations	(166,465)	(14,950)	-	(181,415)	(172,308)	(15,000)	-	(187,308)
GAIN (LOSS) ON INVESTMENTS	68,301	-	-	68,301	(23,387)	-	-	(23,387)
INVESTMENT FEES	(7,091)	-	-	(7,091)	(8,088)	-	-	(8,088)
Changes in net assets	(105,255)	(14,950)	-	(120,205)	(203,783)	(15,000)	-	(218,783)
NET ASSETS, beginning of year	977,363	14,950	50,000	1,042,313	1,181,146	29,950	50,000	1,261,096
NET ASSETS, end of year	$ 872,108	$ -	$ 50,000	$ 922,108	$ 977,363	$ 14,950	$ 50,000	$ 1,042,313

The accompanying notes are an integral part of these statements.

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FIRST LITERACY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(See Independent Accountants' Review Report)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets from operations	$ (181,415)	$ (187,308)
Adjustments to reconcile changes in net assets from operations to net cash used in operating activities:		
Depreciation	4,086	4,086
Donated securities	(2,945)	(2,945)
Changes in operating assets and liabilities:		
Contributions receivable	6,005	(12,005)
Prepaid expenses	674	160
Grants payable	(1,300)	1,000
Accounts payable and accrued expenses	539	(6,528)
Net cash used in operating activities	(174,356)	(203,540)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment fees	(7,091)	(8,088)
Proceeds from sales of investments	293,192	245,007
Purchases of investments	(86,061)	(14,993)
Net cash provided by investing activities	200,040	221,926
NET INCREASE IN CASH AND CASH EQUIVALENTS	25,684	18,386
CASH AND CASH EQUIVALENTS, beginning of year	59,028	40,642
CASH AND CASH EQUIVALENTS, end of year	$ 84,712	$ 59,028
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Non-cash investing activity:		
Unrealized gain (loss) on investments	$ 25,385	$ (34,662)
Cost basis of fully depreciated disposed property	$ -	$ 15,775

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(See Independent Accountants' Review Report)

	2013				2012			
	PROGRAM SERVICES	FUND-RAISING	GENERAL AND ADMINIS-TRATIVE	TOTAL	PROGRAM SERVICES	FUND-RAISING	GENERAL AND ADMINIS-TRATIVE	TOTAL
GRANTS AND AWARDS:								
Grants	$ 239,000	$ -	$ -	$ 239,000	$ 239,000	$ -	$ -	$ 239,000
Scholarships	14,000	-	-	14,000	15,100	-	-	15,100
Literacy awareness	7,545	-	-	7,545	9,374	-	-	9,374
Mentor stipends	700	-	-	700	1,700	-	-	1,700
Technical assistance	-	-	-	-	2,391	-	-	2,391
Total grants and awards	261,245	-	-	261,245	267,565	-	-	267,565
PERSONNEL AND RELATED:								
Salaries	143,000	41,350	19,400	203,750	139,275	38,125	19,105	196,505
Payroll taxes and fringe benefits	21,792	6,303	2,692	30,787	22,923	6,721	3,060	32,704
Contract services	-	1,947	-	1,947	-	4,184	-	4,184
Total personnel and related	164,792	49,600	22,092	236,484	162,198	49,030	22,165	233,393
FACILITY:								
Occupancy	21,587	3,436	3,925	28,948	22,256	3,538	1,474	27,268
Depreciation	3,392	490	204	4,086	3,269	613	204	4,086
Telephone	2,977	322	147	3,446	2,621	435	145	3,201
Insurance	621	135	56	812	618	169	56	843
Total facility	28,577	4,383	4,332	37,292	28,764	4,755	1,879	35,398
OTHER:								
Professional fees	10,728	2,703	17,204	30,635	3,328	2,673	18,879	24,880
Donated services	8,768	16,575	460	25,803	7,988	15,650	416	24,054
Program events	287	17,900	-	18,187	224	9,128	-	9,352
Printing	941	3,457	725	5,123	956	2,777	1,404	5,137
Office	3,500	1,320	42	4,862	2,584	485	111	3,180
Miscellaneous	-	1,781	449	2,230	-	1,307	365	1,672
Marketing	1,062	896	207	2,165	1,977	1,419	372	3,768
Postage	337	1,166	37	1,540	602	869	57	1,528
Total other	25,623	45,798	19,124	90,545	17,659	34,308	21,604	73,571
Total expenses	$ 480,237	$ 99,781	$ 45,548	$ 625,566	$ 476,186	$ 88,093	$ 45,648	$ 609,927

The accompanying notes are an integral part of these statements.

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(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 notes are to the FASB Accounting Standards Codification.

Property and Equipment and Depreciation

Property and equipment having a value of $1,500 or more and a life of at least three years are capitalized. Property and equipment 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.
- **Property and equipment** - represent amounts expended and resources available for property and equipment.
- **Board designated** - represent funds set aside by the Board of Directors for specific purposes. Any use of these funds requires Board approval.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily restricted net assets - represent funds received with donor restrictions which have not yet been expended for their designated purpose. There were no temporarily restricted net assets at June 30, 2013. Temporarily restricted net assets were purpose restricted at June 30, 2012.

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:

	Temporarily Restricted	Permanently Restricted	Total Endowment
Endowment net assets, June 30, 2011	$ -	$50,000	$50,000
Investment income	1,153	-	1,153
Appropriation of endowment income for expenditure	(1,153)	-	(1,153)
Endowment net assets, June 30, 2012	-	50,000	50,000
Investment income	1,210	-	1,210
Appropriation of endowment income for expenditure	(1,210)	-	(1,210)
Endowment net assets, June 30, 2013	$ -	$50,000	$50,000

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.

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(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 1 inputs. Level 1 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 consist of amounts committed to FLit. An allowance for doubtful accounts is recorded based on management's analysis of specific accounts and their estimate of amounts that may become uncollectible. No allowance was deemed necessary at June 30, 2013 or 2012. Accounts are written off when they are determined to be uncollectible. All contributions, included in contributions receivable on the accompanying statements of financial position, are expected to be received within one year.

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 8, 2014, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure that are not included in the financial statements.

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(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, 2013 and 2012, FLit determined that it had no material unrecognized tax benefits to report. FLit files Federal and Massachusetts informational tax 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 over 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:

	2013	2012
Cash and cash equivalents	$ 75,426	$ 9,980
Fixed income:		
Mutual funds:		
High grade securities	-	145,268
Other mutual funds	74,019	71,826
Total fixed income	74,019	217,094
Equities:		
Mutual funds	177,965	185,606
Consumer services and non-durables	147,241	166,868
Capital goods	133,912	162,194
Energy	65,861	86,791
Business products and services	45,411	34,834
All other equities	26,910	26,330
Total equities	597,300	662,623
Foreign assets	83,792	76,725
	$830,537	$966,422

Unrealized gains (losses) for the years ended June 30, 2013 and 2012, were $25,385 and $(34,662), respectively. Realized gains for the years ended June 30, 2013 and 2012, were $42,916 and $11,275, respectively.

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(3) LEASE AGREEMENT

Effective January, 2013, FLit leases its facility as a tenant-at-will. Rent is payable in equal monthly installments of $2,078. Prior to January, 2013, FLit leased the facility under a five-year agreement which expired in December, 2012. Rent expense under the terms of the lease agreement for each of the years ended June 30, 2013 and 2012, was $24,936, and is included in occupancy in the accompanying statements of functional expenses.

(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, 2013 and 2012, pension costs were $10,050 and $9,225, 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 years ended June 30, 2013 and 2012, FLit received the following donated goods and services:

	2013	2012
Donated food for events	$21,343	$18,219
Donated computers and IT services	4,460	5,835
Donated securities	2,945	2,945
	$28,748	$26,999

(6) RECLASSIFICATIONS

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform with the June 30, 2013 presentation.