

G  
O  
  
5  
/  
1  
9  
/  
2  
0  
1  
5

2014  
Review  

---

023655  

---



**FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013  
TOGETHER WITH  
INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

G  
O  
  
5  
/  
1  
9  
/  
2  
0  
1  
5

2014

**FIRST LITERACY, INC.**

**CONTENTS  
JUNE 30, 2014 AND 2013**

	<b><u>PAGES</u></b>
<b>INDEPENDENT ACCOUNTANTS' REVIEW REPORT .....</b>	<b>1</b>
<b>FINANCIAL STATEMENTS:</b>	
Statements of Financial Position .....	2
Statements of Activities and Changes in Net Assets.....	3
Statements of Cash Flows .....	4
Statements of Functional Expenses .....	5
Notes to Financial Statements .....	6 - 11

2014  
Review  
023655

## 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, 2014 and 2013, 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  
December 11, 2014

**FIRST LITERACY, INC.**

**STATEMENTS OF FINANCIAL POSITION**

**JUNE 30, 2014 AND 2013**

(See Independent Accountants' Review Report)

<b><u>ASSETS</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>CURRENT ASSETS:</b>		
Cash	\$ 63,170	\$ 84,712
Contributions receivable	36,000	7,050
Prepaid expenses	1,812	330
Total current assets	100,982	92,092
<b>INVESTMENTS</b>	900,633	830,537
<b>PROPERTY AND EQUIPMENT:</b>		
Leasehold improvements	40,859	40,859
Computers	-	3,688
	40,859	44,547
Less - accumulated depreciation	26,680	26,282
Net property and equipment	14,179	18,265
<b>SECURITY DEPOSIT</b>	2,500	2,078
Total assets	<u>\$ 1,018,294</u>	<u>\$ 942,972</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Grants payable	\$ 23,652	\$ 14,700
Accounts payable and accrued expenses	5,577	6,164
Total current liabilities	29,229	20,864
<b>NET ASSETS:</b>		
Unrestricted:		
Operating	43,780	73,306
Property and equipment	14,179	18,265
Board designated	850,633	780,537
Total unrestricted	908,592	872,108
Temporarily restricted	30,473	-
Permanently restricted	50,000	50,000
Total net assets	989,065	922,108
Total liabilities and net assets	<u>\$ 1,018,294</u>	<u>\$ 942,972</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, 2014 AND 2013  
(See Independent Accountants' Review Report)

	2014				2013			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUE:</b>								
Grants and contributions	\$ 382,508	\$ 89,968	\$ -	\$ 472,476	\$ 379,868	\$ 6,786	\$ -	\$ 386,654
Donated goods and services	28,711	-	-	28,711	28,748	-	-	28,748
Interest and dividends	24,628	-	-	24,628	28,749	-	-	28,749
Net assets released from program restrictions	59,495	(59,495)	-	-	21,736	(21,736)	-	-
Total operating revenue	495,342	30,473	-	525,815	459,101	(14,950)	-	444,151
<b>EXPENSES:</b>								
Program services	471,103	-	-	471,103	480,237	-	-	480,237
Fundraising	89,180	-	-	89,180	99,781	-	-	99,781
General and administrative	40,978	-	-	40,978	45,548	-	-	45,548
Total expenses	601,261	-	-	601,261	625,566	-	-	625,566
Changes in net assets from operations	(105,919)	30,473	-	(75,446)	(166,465)	(14,950)	-	(181,415)
<b>GAIN ON INVESTMENTS</b>	149,651	-	-	149,651	68,301	-	-	68,301
<b>INVESTMENT FEES</b>	(7,248)	-	-	(7,248)	(7,091)	-	-	(7,091)
Changes in net assets	36,484	30,473	-	66,957	(105,255)	(14,950)	-	(120,205)
<b>NET ASSETS, beginning of year</b>	872,108	-	50,000	922,108	977,363	14,950	50,000	1,042,313
<b>NET ASSETS, end of year</b>	<u>\$ 908,592</u>	<u>\$ 30,473</u>	<u>\$ 50,000</u>	<u>\$ 989,065</u>	<u>\$ 872,108</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 922,108</u>

The accompanying notes are an integral part of these statements.

G  
O  
  
5  
/  
1  
9  
/  
2  
0  
1  
5

**FIRST LITERACY, INC.**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**  
(See Independent Accountants' Review Report)

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 66,957	\$ (120,205)
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Gain on investments	(149,651)	(68,301)
Investment fees	7,248	7,091
Depreciation	4,086	4,086
Changes in operating assets and liabilities:		
Contributions receivable	(28,950)	6,005
Prepaid expenses	(1,482)	674
Security deposit	(422)	-
Grants payable	8,952	(1,300)
Accounts payable and accrued expenses	<u>(587)</u>	<u>539</u>
Net cash used in operating activities	<u>(93,849)</u>	<u>(171,411)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment fees	(7,248)	(7,091)
Proceeds from sales of investments	89,015	290,247
Purchases of investments	<u>(9,460)</u>	<u>(86,061)</u>
Net cash provided by investing activities	<u>72,307</u>	<u>197,095</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(21,542)	25,684
<b>CASH, beginning of year</b>	<u>84,712</u>	<u>59,028</u>
<b>CASH, end of year</b>	<u><u>\$ 63,170</u></u>	<u><u>\$ 84,712</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Non-cash investing activity:		
Unrealized gain on investments	<u>\$ 134,332</u>	<u>\$ 25,385</u>
Cost basis of fully depreciated disposed property	<u><u>\$ 3,688</u></u>	<u><u>\$ -</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, 2014 AND 2013  
(See Independent Accountants' Review Report)

	2014				2013			
	PROGRAM SERVICES	FUND- RAISING	GENERAL AND ADMINIS- TRATIVE	TOTAL	PROGRAM SERVICES	FUND- RAISING	GENERAL AND ADMINIS- TRATIVE	TOTAL
<b>GRANTS AND AWARDS:</b>								
Grants	\$ 241,305	\$ -	\$ -	\$ 241,305	\$ 239,000	\$ -	\$ -	\$ 239,000
Scholarships and mentorings	16,400	-	-	16,400	14,700	-	-	14,700
Literacy awareness	7,517	-	-	7,517	7,545	-	-	7,545
Total grants and awards	265,222	-	-	265,222	261,245	-	-	261,245
<b>PERSONNEL AND RELATED:</b>								
Salaries	141,646	18,930	16,325	176,901	143,000	41,350	19,400	203,750
Payroll taxes and fringe benefits	21,403	3,179	2,774	27,356	21,792	6,303	2,692	30,787
Contract services	-	2,111	-	2,111	-	1,947	-	1,947
Total personnel and related	163,049	24,220	19,099	206,368	164,792	49,600	22,092	236,484
<b>FACILITY:</b>								
Occupancy	22,014	3,509	4,041	29,564	21,587	3,436	3,925	28,948
Depreciation	3,392	490	204	4,086	3,392	490	204	4,086
Telephone	2,119	236	98	2,453	2,977	322	147	3,446
Insurance	622	136	57	815	621	135	56	812
Total facility	28,147	4,371	4,400	36,918	28,577	4,383	4,332	37,292
<b>OTHER:</b>								
Donated goods and services	3,663	22,742	303	26,708	8,768	16,575	460	25,803
Program events	546	24,974	-	25,520	287	18,860	-	19,147
Professional fees	5,556	2,678	16,558	24,792	10,728	2,703	17,204	30,635
Printing	844	3,643	131	4,618	941	2,825	725	4,491
Miscellaneous	-	4,382	235	4,617	-	1,760	449	2,209
Marketing	2,167	446	127	2,740	1,062	896	207	2,165
Office	1,567	1,041	87	2,695	3,500	1,320	42	4,862
Postage	342	683	38	1,063	337	859	37	1,233
Total other	14,685	60,589	17,479	92,753	25,623	45,798	19,124	90,545
Total expenses	\$ 471,103	\$ 89,180	\$ 40,978	\$ 601,261	\$ 480,237	\$ 99,781	\$ 45,548	\$ 625,566

The accompanying notes are an integral part of these statements.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**  
(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 notes are to the FASB Accounting Standards Codification (ASC).

**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.



**FIRST LITERACY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(See Independent Accountants' Review Report)  
(Continued)

**(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. Temporarily restricted net assets of \$30,473 were purpose restricted at June 30, 2014. There were no temporarily restricted net assets at June 30, 2013.

**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.

Endowment

FLit follows the Massachusetts Uniform Prudent Management of Institutional Funds Act. Subject to the intent of a donor, FLit 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 FLit.

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, 2012	\$ -	\$50,000	\$50,000
Investment income	1,210	-	1,210
Appropriation of endowment income for expenditure	<u>(1,210)</u>	<u>-</u>	<u>(1,210)</u>
Endowment net assets, June 30, 2013	-	50,000	50,000
Investment income	1,061	-	1,061
Appropriation of endowment income for expenditure	<u>(1,061)</u>	<u>-</u>	<u>(1,061)</u>
Endowment net assets, June 30, 2014	<u>\$ -</u>	<u>\$50,000</u>	<u>\$50,000</u>

FLit targets a diversified asset allocation that places emphasis on investments in domestic and international equities, fixed income funds, and money market funds to achieve its long-term return objectives within prudent risk constraints. The Board of Directors reviews the policy portfolio asset allocation, exposures, and risk profile on an ongoing basis.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**  
(See Independent Accountants' Review Report)  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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 or permanently restricted net assets when received or unconditionally pledged. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets. 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.

**Grants and Scholarships**

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

**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, 2014 and 2013, since substantially all outstanding balances were received subsequent to fiscal year end. Accounts are written off when they are determined to be uncollectible.

**Fair Value Measurements**

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. These standards establish a fair value hierarchy that prioritizes the inputs and assumptions used to measure fair value.

The three levels of the fair value hierarchy 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 and which require significant judgment or estimation.

An 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.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**  
(See Independent Accountants' Review Report)  
(Continued)

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

**SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments**

Investments are valued at fair 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 fair 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.

**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.

**Subsequent Events**

Subsequent events have been evaluated through December 11, 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 in the financial statements.

**Income Taxes**

FLit accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. FLit has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2014 and 2013. FLit's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

(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 values have been provided by investment managers.

**FIRST LITERACY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**  
(See Independent Accountants' Review Report)  
(Continued)

(2) **INVESTMENTS** (Continued)

The following is a summary of the investment portfolio:

	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	\$ 11,893	\$ 75,426
Fixed income	<u>78,876</u>	<u>74,019</u>
Equities:		
Mutual funds	222,580	177,965
Consumer services and non-durables	165,744	147,241
Capital goods	144,858	133,912
Energy	73,128	65,861
Business products and services	57,733	45,411
All other equities	<u>33,853</u>	<u>26,910</u>
Total equities	<u>697,896</u>	<u>597,300</u>
Foreign equities	<u>111,968</u>	<u>83,792</u>
	<u>\$900,633</u>	<u>\$830,537</u>

Unrealized gains for the years ended June 30, 2014 and 2013, were \$134,332 and \$25,385, respectively. Realized gains for the years ended June 30, 2014 and 2013, were \$15,319 and \$42,916, respectively.

(3) **LEASE AGREEMENT**

FLit leases its facility under an agreement with monthly lease payments of \$2,500 through September, 2015. Prior to May, 2014, FLit leased its facility as a tenant-at-will. Rent expense under the terms of the lease agreement for each of the years ended June 30, 2014 and 2013, was \$25,780 and \$24,936, respectively, and is included in occupancy in the accompanying statements of functional expenses. Remaining minimum future obligations on this lease as of June 30, 2014, are as follows:

<u>Fiscal Year</u>	
2015	\$30,000
2016	\$ 7,500

(4) **EMPLOYEE BENEFIT PLAN**

FLit has a defined contribution employee benefit 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, 2014 and 2013, benefit plan costs were \$8,338 and \$10,050, respectively, and are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

**FIRST LITERACY, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2014 AND 2013**

(See Independent Accountants' Review Report)  
(Continued)

**(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, 2014 and 2013, FLit received the following donated goods and services:

	<u>2014</u>	<u>2013</u>
Donated food for events	\$24,188	\$21,343
Donated securities	2,003	2,945
Donated computers and IT services	1,920	4,460
Donated goods	<u>600</u>	<u>-</u>
	<u>\$28,711</u>	<u>\$28,748</u>

**(6) CONCENTRATIONS**

FLit received approximately 13% and 15% of all operating revenue from one donor during the years ended June 30, 2014 and 2013, respectively, which is included in grants and contributions in the statements of activities and change in net assets. Two and three donors represent approximately 97% and 99% of the total contributions receivable balance as of June 30, 2014 and 2013, respectively.

**(7) RECLASSIFICATIONS**

Certain amounts in the June 30, 2013 financial statements have been reclassified to conform with the June 30, 2014 presentation.