



**FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

FIRST LITERACY, INC.

Contents
June 30, 2016 and 2015

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Independent Accountants' Review Report

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

We have reviewed the accompanying financial statements of First Literacy, Inc. (a Massachusetts nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of 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's Responsibility for the Financial Statements

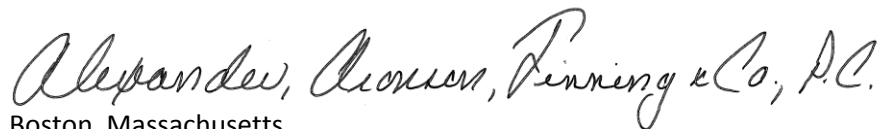
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

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 accordance with accounting principles generally accepted in the United States of America.


Boston, Massachusetts
November 16, 2016

FIRST LITERACY, INC.

Statements of Financial Position

June 30, 2016 and 2015

(See Independent Accountants' Review Report)

Assets	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 152,629	\$ 213,367
Contributions receivable	15,500	11,065
Prepaid expenses	6,359	3,780
Total current assets	174,488	228,212
Investments	797,799	785,489
Property and Equipment:		
Leasehold improvements	69,124	40,859
Furniture and fixtures	2,635	-
	71,759	40,859
Less - accumulated depreciation	37,942	30,766
Net property and equipment	33,817	10,093
Security Deposit	5,000	2,500
Total assets	<u>\$ 1,011,104</u>	<u>\$ 1,026,294</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 7,343	\$ 5,680
Grants payable	23,000	3,600
Total current liabilities	30,343	9,280
Net Assets:		
Unrestricted:		
Operating	100,238	188,859
Property and equipment	33,817	10,093
Board designated	747,799	735,489
Total unrestricted	881,854	934,441
Temporarily restricted	48,907	32,573
Permanently restricted	50,000	50,000
Total net assets	980,761	1,017,014
Total liabilities and net assets	<u>\$ 1,011,104</u>	<u>\$ 1,026,294</u>

The accompanying notes are an integral part of these statements.

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FIRST LITERACY, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2016 and 2015
(See Independent Accountants' Review Report)

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Grants and contributions	\$ 356,911	\$ 52,490	\$ -	\$ 409,401	\$ 424,600	\$ 42,842	\$ -	\$ 467,442
Donated goods and services	33,905	-	-	33,905	61,975	-	-	61,975
Interest and dividends	15,604	-	-	15,604	15,624	-	-	15,624
Rental income	3,626	-	-	3,626	-	-	-	-
Net assets released from program restrictions	36,156	(36,156)	-	-	40,742	(40,742)	-	-
Total operating revenue	446,202	16,334	-	462,536	542,941	2,100	-	545,041
Expenses:								
Program services	379,273	-	-	379,273	380,246	-	-	380,246
Fundraising	79,613	-	-	79,613	79,079	-	-	79,079
General and administrative	32,616	-	-	32,616	66,491	-	-	66,491
Total expenses	491,502	-	-	491,502	525,816	-	-	525,816
Changes in net assets from operations	(45,300)	16,334	-	(28,966)	17,125	2,100	-	19,225
Net Gain (Loss) on Investments	(161)	-	-	(161)	15,856	-	-	15,856
Investment Fees	(7,126)	-	-	(7,126)	(7,132)	-	-	(7,132)
Changes in net assets	(52,587)	16,334	-	(36,253)	25,849	2,100	-	27,949
Net Assets:								
Beginning of year	934,441	32,573	50,000	1,017,014	908,592	30,473	50,000	989,065
End of year	<u>\$ 881,854</u>	<u>\$ 48,907</u>	<u>\$ 50,000</u>	<u>\$ 980,761</u>	<u>\$ 934,441</u>	<u>\$ 32,573</u>	<u>\$ 50,000</u>	<u>\$ 1,017,014</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

Statements of Cash Flows

For the Years Ended June 30, 2016 and 2015

(See Independent Accountants' Review Report)

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (36,253)	\$ 27,949
Adjustments to reconcile changes in net assets to net cash provided by (used) in operating activities:		
Net (gain) loss on investments	161	(15,856)
Investment fees	7,126	7,132
Depreciation	7,176	4,086
Changes in operating assets and liabilities:		
Contributions receivable	(4,435)	24,935
Prepaid expenses	(2,579)	(1,968)
Security deposit	(2,500)	-
Accounts payable and accrued expenses	1,663	103
Grants payable	19,400	(20,052)
	<u>(10,241)</u>	<u>26,329</u>
Net cash provided by (used in) operating activities	<u>(10,241)</u>	<u>26,329</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(30,900)	-
Investment fees	(7,126)	(7,132)
Proceeds from sales of investments	167,022	350,777
Purchases of investments	(179,493)	(219,777)
	<u>(50,497)</u>	<u>123,868</u>
Net cash provided by (used in) investing activities	<u>(50,497)</u>	<u>123,868</u>
Net Change in Cash and Cash Equivalents	<u>(60,738)</u>	<u>150,197</u>
Cash and Cash Equivalents:		
Beginning of year	<u>213,367</u>	<u>63,170</u>
End of year	<u><u>\$ 152,629</u></u>	<u><u>\$ 213,367</u></u>
Supplemental Disclosure of Cash Flow Information:		
Non-cash investing activity:		
Unrealized loss on investments	<u><u>\$ (21,141)</u></u>	<u><u>\$ (139,693)</u></u>

FIRST LITERACY, INC.

Statements of Functional Expenses

For the Years Ended June 30, 2016 and 2015

(See Independent Accountants' Review Report)

	2016				2015			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Grants and Awards:								
Grants	\$ 65,063	\$ -	\$ -	\$ 65,063	\$ 129,386	\$ -	\$ -	\$ 129,386
Scholarships and mentoring	25,300	-	-	25,300	20,600	-	-	20,600
Literacy awareness	5,668	-	-	5,668	5,933	-	-	5,933
Total grants and awards	96,031	-	-	96,031	155,919	-	-	155,919
Personnel and Related:								
Salaries	163,500	8,300	12,449	184,249	147,335	13,342	11,700	172,377
Payroll taxes and fringe benefits	26,693	1,225	1,835	29,753	22,453	2,011	1,763	26,227
Contract services	-	3,265	-	3,265	-	3,918	-	3,918
Total personnel and related	190,193	12,790	14,284	217,267	169,788	19,271	13,463	202,522
Facility:								
Occupancy	53,003	3,418	1,709	58,130	28,260	4,040	1,684	33,984
Depreciation	6,808	245	123	7,176	3,392	490	204	4,086
Telephone	3,368	110	166	3,644	2,614	238	99	2,951
Insurance	876	68	34	978	623	136	57	816
Total facility	64,055	3,841	2,032	69,928	34,889	4,904	2,044	41,837
Other:								
Professional fees	14,147	2,409	15,607	32,163	9,363	2,463	14,775	26,601
Donated goods and services	2,230	26,384	280	28,894	4,365	18,542	34,821	57,728
Program events	1,962	25,879	-	27,841	265	28,541	-	28,806
Printing	853	4,441	97	5,391	1,202	3,288	486	4,976
Marketing	3,748	578	48	4,374	1,707	228	210	2,145
Miscellaneous	2,084	1,975	199	4,258	582	510	620	1,712
Office	3,555	548	34	4,137	1,730	549	31	2,310
Postage	415	768	35	1,218	436	783	41	1,260
Total other	28,994	62,982	16,300	108,276	19,650	54,904	50,984	125,538
Total expenses	<u>\$ 379,273</u>	<u>\$ 79,613</u>	<u>\$ 32,616</u>	<u>\$ 491,502</u>	<u>\$ 380,246</u>	<u>\$ 79,079</u>	<u>\$ 66,491</u>	<u>\$ 525,816</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

Notes to Financial Statements
June 30, 2016 and 2015
(See Independent Accountants' Review Report)

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

First Literacy, Inc. (First Literacy) 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. First Literacy offers professional development workshops for adult educators and project grants for ABE providers to develop, test, and implement resources and practices that are innovative and promising to the field or to individual programs. First Literacy also awards scholarships and provides mentors to adults who have completed their basic education and are continuing on to college or advanced skills training. The literacy awareness activities sponsored by First Literacy 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. First Literacy receives its support from corporations, the general public and community and private foundations.

First Literacy 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). First Literacy is also exempt from state income taxes. Donors may deduct contributions made to First Literacy within the IRC regulations.

SIGNIFICANT ACCOUNTING POLICIES

First Literacy 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
Furniture and fixtures	5 years

Net Assets

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by First Literacy. First Literacy 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, 2016 and 2015

(See Independent Accountants' Review Report)

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

Temporarily restricted net assets - represent funds designated by donors for specific purposes or for a specific time frame. Temporarily restricted net assets were \$48,907 and \$32,573 at June 30, 2016 and 2015, respectively, all of which were purpose restricted.

Permanently restricted net assets - represent funds restricted by the donors against any expenditure of principal. Investment income may be used for the donor specified purposes.

Endowment

First Literacy follows the Massachusetts Uniform Prudent Management of Institutional Funds Act. Subject to the intent of a donor, First Literacy may appropriate for expenditure or accumulate so much of an endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established.

A reconciliation of endowment activity is as follows:

	Temporarily Restricted	Permanently Restricted	Total Endowment
Endowment net assets, June 30, 2014	\$ -	\$ 50,000	\$ 50,000
Investment income	742	-	742
Appropriation of endowment income for expenditure	<u>(742)</u>	<u>-</u>	<u>(742)</u>
Endowment net assets, June 30, 2015	-	50,000	50,000
Investment income	1,056	-	1,056
Appropriation of endowment income for expenditure	<u>(1,056)</u>	<u>-</u>	<u>(1,056)</u>
Endowment net assets, June 30, 2016	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(See Independent Accountants' Review Report)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

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. Interest and dividends are recognized when earned. Realized gains and losses are recognized at the time of sale. Unrealized gains and losses are recorded based on changes in the fair value of investments during the year. All other revenue is recorded when earned.

Expense Allocation

Expenses related directly to a program are distributed to that function, while other indirect expenses are allocated based upon management's estimate of the percentage attributable to each program.

Statement of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the provision of program services are reported as operating revenue and operating expenses in the accompanying statement of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenue. Non-operating revenue, consistent with industry practice, includes net gain (loss) on investments and investment fees (see Note 2).

Grants and Scholarships

First Literacy 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 First Literacy. 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, 2016 and 2015, 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

First Literacy follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that First Literacy would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(See Independent Accountants' Review Report)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

First Literacy uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of First Literacy. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices 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. All qualifying assets and liabilities are valued using Level 1 inputs.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents consists of checking and money market accounts, excluding amounts in the investment portfolio.

Investments

Investments are recorded in the financial statements at fair value. If an investment is directly held by First Literacy and an active market with quoted prices exists, the market price of an identical security is used to report fair value. Reported fair values of shares in mutual funds are based on share prices reported by the funds as of the last business day of the fiscal year.

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.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(See Independent Accountants' Review Report)

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

Subsequent events have been evaluated through November 16, 2016, 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

First Literacy 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. First Literacy has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2016 and 2015.

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. Investments are classified as long-term in the accompanying statements of financial position based on management's intent to hold investments for long-term growth.

The following is a summary of the investment portfolio as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 51,247	\$ -	\$ -	\$ 51,247
Fixed income	<u>118,061</u>	-	-	<u>118,061</u>
Equities:				
Consumer services and non-durables	180,915	-	-	180,915
Mutual funds	103,010	-	-	103,010
Capital goods	70,810	-	-	70,810
Business products and services	50,693	-	-	50,693
All other equities	<u>136,958</u>	-	-	<u>136,958</u>
Total equities	<u>542,386</u>	-	-	<u>542,386</u>
Foreign assets:				
Equities	66,339	-	-	66,339
Mutual funds	<u>19,766</u>	-	-	<u>19,766</u>
Total foreign assets	<u>86,105</u>	-	-	<u>86,105</u>
	<u>\$ 797,799</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 797,799</u>

FIRST LITERACY, INC.

Notes to Financial Statements
June 30, 2016 and 2015
(See Independent Accountants' Review Report)

2. INVESTMENTS (Continued)

The following is a summary of the investment portfolio as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and cash equivalents	\$ 15,193	\$ -	\$ -	\$ 15,193
Fixed income	<u>54,431</u>	-	-	<u>54,431</u>
Equities:				
Consumer services and non-durables	172,895	-	-	172,895
Mutual funds	157,621	-	-	157,621
Capital goods	102,345	-	-	102,345
Business products and services	103,424	-	-	103,424
All other equities	<u>112,641</u>	-	-	<u>112,641</u>
Total equities	<u>648,926</u>	-	-	<u>648,926</u>
Foreign assets:				
Equities	66,939	-	-	66,939
Mutual funds	<u>-</u>	-	-	<u>-</u>
Total foreign assets	<u>66,939</u>	-	-	<u>66,939</u>
	<u>\$ 785,489</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 785,489</u>

First Literacy 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.

Unrealized losses for the years ended June 30, 2016 and 2015, were \$(21,141) and \$(139,693), respectively. Realized gains for the years ended June 30, 2016 and 2015, were \$20,980 and \$155,549, respectively.

3. LEASE AGREEMENTS

First Literacy leases its facility under an agreement with monthly lease payments of \$2,500 through September 2015, at which time the monthly lease payments increased to \$5,000 through June 2017. The lease agreement includes a three-year renewal option through April 2020. Rent expense under the terms of the lease agreement for each of the years ended June 30, 2016 and 2015, was \$52,500 and \$30,000, respectively, and is included in occupancy in the accompanying statements of functional expenses. Remaining minimum future obligations on this lease as of June 30, 2016, are \$60,000 for fiscal year 2017.

During fiscal year 2016, First Literacy temporarily sub-let office space to a nonprofit organization. Rental income for 2016 was \$3,626.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2016 and 2015

(See Independent Accountants' Review Report)

4. EMPLOYEE BENEFIT PLAN

First Literacy has a defined contribution employee retirement plan covering all eligible employees. Employees become eligible to participate after three months of employment. First Literacy contributes 5% of each employee's annual salary. For the years ended June 30, 2016 and 2015, benefit plan costs were \$9,045 and \$8,210, respectively, and are included in payroll taxes and fringe benefits in the accompanying statements of functional expenses.

5. DONATED GOODS AND SERVICES

First Literacy 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, 2016 and 2015, First Literacy received the following donated goods and services:

	<u>2016</u>	<u>2015</u>
Donated food for events	\$ 28,894	\$ 23,249
Donated securities	3,011	4,247
Donated goods	2,000	-
Donated legal services	<u>-</u>	<u>34,479</u>
	<u>\$ 33,905</u>	<u>\$ 61,975</u>

6. CONCENTRATIONS

During 2016, First Literacy received approximately 10% of all operating revenue from one donor, which is included in grants and contributions in the statement of activities and change in net assets for the year ended June 30, 2016. One donor represents approximately 97% of the total contributions receivable balance as of June 30, 2016. Two donors represent approximately 77% of the total contributions receivable balance as of June 30, 2015.

7. RELATED PARTY

The Chair of First Literacy's Board is on the management committee of First Literacy's investment advisors. The Chair has no oversight or control over the group that manages First Literacy's investment accounts.

8. RECLASSIFICATION

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.