



FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

FIRST LITERACY, INC.

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June 30, 2015 and 2014

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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 nonprofit corporation) as of June 30, 2015 and 2014, 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, Brown, Finning & Co., P.C.

Boston, Massachusetts
November 17, 2015

FIRST LITERACY, INC.

Statements of Financial Position

June 30, 2015 and 2014

(See Independent Accountants' Review Report)

Assets	2015	2014
Current Assets:		
Cash and cash equivalents	\$ 213,367	\$ 63,170
Contributions receivable	11,065	36,000
Prepaid expenses	3,780	1,812
Total current assets	228,212	100,982
Investments	785,489	900,633
Property and Equipment:		
Leasehold improvements	40,859	40,859
Less - accumulated depreciation	30,766	26,680
Net property and equipment	10,093	14,179
Security Deposit	2,500	2,500
Total assets	<u>\$ 1,026,294</u>	<u>\$ 1,018,294</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 5,680	\$ 5,577
Grants payable	3,600	23,652
Total current liabilities	9,280	29,229
Net Assets:		
Unrestricted:		
Operating	188,859	43,780
Property and equipment	10,093	14,179
Board designated	735,489	850,633
Total unrestricted	934,441	908,592
Temporarily restricted	32,573	30,473
Permanently restricted	50,000	50,000
Total net assets	1,017,014	989,065
Total liabilities and net assets	<u>\$ 1,026,294</u>	<u>\$ 1,018,294</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, 2015 and 2014
(See Independent Accountants' Review Report)

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Operating Revenue:								
Grants and contributions	\$ 424,600	\$ 42,842	\$ -	\$ 467,442	\$ 382,508	\$ 89,968	\$ -	\$ 472,476
Donated goods and services	61,975	-	-	61,975	28,711	-	-	28,711
Interest and dividends	15,624	-	-	15,624	24,628	-	-	24,628
Net assets released from program restrictions	40,742	(40,742)	-	-	59,495	(59,495)	-	-
Total operating revenue	542,941	2,100	-	545,041	495,342	30,473	-	525,815
Expenses:								
Program services	377,246	-	-	377,246	471,103	-	-	471,103
Fundraising	79,079	-	-	79,079	89,180	-	-	89,180
General and administrative	69,491	-	-	69,491	40,978	-	-	40,978
Total expenses	525,816	-	-	525,816	601,261	-	-	601,261
Changes in net assets from operations	17,125	2,100	-	19,225	(105,919)	30,473	-	(75,446)
Net Gain on Investments	15,856	-	-	15,856	149,651	-	-	149,651
Investment Fees	(7,132)	-	-	(7,132)	(7,248)	-	-	(7,248)
Changes in net assets	25,849	2,100	-	27,949	36,484	30,473	-	66,957
Net Assets:								
Beginning of year	908,592	30,473	50,000	989,065	872,108	-	50,000	922,108
End of year	<u>\$ 934,441</u>	<u>\$ 32,573</u>	<u>\$ 50,000</u>	<u>\$ 1,017,014</u>	<u>\$ 908,592</u>	<u>\$ 30,473</u>	<u>\$ 50,000</u>	<u>\$ 989,065</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

Statements of Cash Flows

For the Years Ended June 30, 2015 and 2014

(See Independent Accountants' Review Report)

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 27,949	\$ 66,957
Adjustments to reconcile changes in net assets to net cash provided by (used) in operating activities:		
Net gain on investments	(15,856)	(149,651)
Investment fees	7,132	7,248
Depreciation	4,086	4,086
Changes in operating assets and liabilities:		
Contributions receivable	24,935	(28,950)
Prepaid expenses	(1,968)	(1,482)
Security deposit	-	(422)
Accounts payable and accrued expenses	103	(587)
Grants payable	(20,052)	8,952
Net cash provided by (used in) operating activities	<u>26,329</u>	<u>(93,849)</u>
Cash Flows from Investing Activities:		
Investment fees	(7,132)	(7,248)
Proceeds from sales of investments	350,777	89,015
Purchases of investments	<u>(219,777)</u>	<u>(9,460)</u>
Net cash provided by investing activities	<u>123,868</u>	<u>72,307</u>
Net Change in Cash and Cash Equivalents	150,197	(21,542)
Cash and cash equivalents:		
Beginning of year	<u>63,170</u>	<u>84,712</u>
End of year	<u>\$ 213,367</u>	<u>\$ 63,170</u>
Supplemental Disclosure of Cash Flow Information:		
Non-cash investing activity:		
Unrealized gain (loss) on investments	<u>\$ (139,693)</u>	<u>\$ 134,332</u>

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

Statements of Functional Expenses
For the Years Ended June 30, 2015 and 2014
(See Independent Accountants' Review Report)

	2015				2014			
	Program Services	Fundraising	General and Administrative	Total	Program Services	Fundraising	General and Administrative	Total
Grants and Awards:								
Grants	\$ 129,386	\$ -	\$ -	\$ 129,386	\$ 241,305	\$ -	\$ -	\$ 241,305
Scholarships and mentorings	20,600	-	-	20,600	16,400	-	-	16,400
Literacy awareness	5,933	-	-	5,933	7,517	-	-	7,517
Total grants and awards	155,919	-	-	155,919	265,222	-	-	265,222
Personnel and Related:								
Salaries	147,335	13,342	11,700	172,377	141,646	18,930	16,325	176,901
Payroll taxes and fringe benefits	22,453	2,011	1,763	26,227	21,403	3,179	2,774	27,356
Contract services	-	3,918	-	3,918	-	2,111	-	2,111
Total personnel and related	169,788	19,271	13,463	202,522	163,049	24,220	19,099	206,368
Facility:								
Occupancy	25,260	4,040	4,684	33,984	22,014	3,509	4,041	29,564
Depreciation	3,392	490	204	4,086	3,392	490	204	4,086
Telephone	2,614	238	99	2,951	2,119	236	98	2,453
Insurance	623	136	57	816	622	136	57	815
Total facility	31,889	4,904	5,044	41,837	28,147	4,371	4,400	36,918
Other:								
Donated goods and services	4,365	18,542	34,821	57,728	3,663	22,742	303	26,708
Professional fees	9,363	2,463	14,775	26,601	5,556	2,678	16,558	24,792
Program events	260	24,930	-	25,190	546	24,974	-	25,520
Miscellaneous	587	4,121	620	5,328	-	4,382	235	4,617
Printing	1,202	3,288	486	4,976	844	3,643	131	4,618
Office	1,730	549	31	2,310	1,567	1,041	87	2,695
Marketing	1,707	228	210	2,145	2,167	446	127	2,740
Postage	436	783	41	1,260	342	683	38	1,063
Total other	19,650	54,904	50,984	125,538	14,685	60,589	17,479	92,753
Total expenses	\$ 377,246	\$ 79,079	\$ 69,491	\$ 525,816	\$ 471,103	\$ 89,180	\$ 40,978	\$ 601,261

The accompanying notes are an integral part of these statements.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(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 to develop, test, and implement resources and practices that are innovative and promising to the field or to individual programs. FLit 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 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, 2015 and 2014

(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 \$32,573 and \$30,473 at June 30, 2015 and 2014, respectively, all of which were program 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 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:

	Temporarily Restricted	Permanently Restricted	Total Endowment
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	-	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	<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, 2015 and 2014

(See Independent Accountants' Review Report)

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. Investment income consists of interest, dividends and realized gains and losses and is recognized when earned. 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.

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, 2015 and 2014, 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

FLit 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 FLit would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

FLit 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 FLit. 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.

FIRST LITERACY, INC.

Notes to Financial Statements
June 30, 2015 and 2014
(See Independent Accountants' Review Report)

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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 FLit 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.

Subsequent Events

Subsequent events have been evaluated through November 17, 2015, 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, other than as disclosed in Note 3.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(See Independent Accountants' Review Report)

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**SIGNIFICANT ACCOUNTING POLICIES (Continued)****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, 2015 and 2014. FLit's tax 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. 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:

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	<u>\$ 15,193</u>	<u>\$ 11,893</u>
Fixed income	<u>54,431</u>	<u>78,876</u>
Equities:		
Consumer services and non-durables	172,895	165,744
Mutual funds	157,621	222,580
Business products and services	103,424	57,733
Capital goods	102,345	144,858
All other equities	93,260	33,853
Energy	<u>19,381</u>	<u>73,128</u>
Total equities	<u>648,926</u>	<u>697,896</u>
Foreign equities	<u>66,939</u>	<u>111,968</u>
	<u>\$ 785,489</u>	<u>\$ 900,633</u>

Unrealized gains (losses) for the years ended June 30, 2015 and 2014 were \$(139,693) and \$134,332, respectively. Realized gains for the years ended June 30, 2015 and 2014, were \$155,549 and \$15,319, respectively.

FIRST LITERACY, INC.

Notes to Financial Statements

June 30, 2015 and 2014

(See Independent Accountants' Review Report)

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, 2015 and 2014, was \$30,000 and \$25,780, respectively, and is included in occupancy in the accompanying statements of functional expenses. Subsequent to year-end, FLit renewed its lease agreement effective October 1, 2015, with monthly lease payments of \$5,000 through June 30, 2017. Remaining minimum future obligations on this lease as of June 30, 2015, are as follows:

Fiscal Year

2016	\$ 52,500
2017	\$ 60,000

4. EMPLOYEE BENEFIT PLAN

FLit has a defined contribution employee retirement 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, 2015 and 2014, benefit plan costs were \$8,210 and \$8,338, 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, 2015 and 2014, FLit received the following donated goods and services:

	<u>2015</u>	<u>2014</u>
Donated legal services	\$ 34,479	\$ -
Donated food for events	23,249	24,188
Donated securities	4,247	2,003
Donated computers and IT services	-	1,920
Donated goods	-	600
	<u>\$ 61,975</u>	<u>\$ 28,711</u>

6. CONCENTRATIONS

During 2014 FLit received approximately 13% 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, 2014. Two donors represent approximately 77% and 97% of the total contributions receivable balance as of June 30, 2015 and 2014, respectively.

7. RELATED PARTY

The Chair of the Board is on the management committee of Eaton Vance, FLit's investment advisors, but he has no oversight or control over the group that manages FLit's investment accounts.