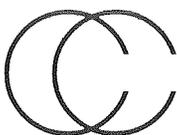


**FOUNDATIONS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2008 AND 2007**

FOUNDATIONS, INC.  
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

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# Citrin Cooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Foundations, Inc.

We have audited the accompanying statements of financial position of Foundations, Inc. as of August 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Foundations, Inc. as of August 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

*Citrin Cooperman & Company, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

January 17, 2009

FOUNDATIONS, INC.  
 STATEMENTS OF FINANCIAL POSITION  
 AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 5,524,219	\$ 5,446,350
Grants and other receivables	1,922,738	134,263
Inventories	52,682	60,815
Prepaid expenses	37,388	25,630
Property and equipment, net	52,560	51,830
Deposits	<u>27,000</u>	<u>27,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 7,616,587</u></b>	<b><u>\$ 5,745,888</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable	\$ 147,604	\$ 53,912
Accrued expenses	240,247	215,823
Deferred grant revenue	<u>3,851,953</u>	<u>2,429,374</u>
Total liabilities	4,239,804	2,699,109
Commitments and contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>3,376,783</u>	<u>3,046,779</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 7,616,587</u></b>	<b><u>\$ 5,745,888</u></b>

See accompanying notes to financial statements.

FOUNDATIONS, INC.  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
Revenue and other support:		
Conference fees	\$ 461,971	\$ 638,831
Contract services	3,633,322	4,225,471
Contributions	729,059	674,006
Grants:		
Foundations and other granting entities	4,610,538	5,923,957
State and federal	1,857,215	1,532,428
Interest and other income	185,327	232,004
Product sales	240,507	260,425
Tuition	<u>200,021</u>	<u>213,660</u>
Total revenue and other support	<u>11,917,960</u>	<u>13,700,782</u>
Expenses:		
Program services:		
Conference	347,735	279,177
Contract services	2,179,376	3,194,856
Foundations and other granting entities	4,219,436	5,062,818
State and federal	1,866,769	1,494,616
Tuition	188,058	255,897
Product sales	75,242	194,631
Administrative	<u>2,711,340</u>	<u>2,846,019</u>
Total expenses	<u>11,587,956</u>	<u>13,328,014</u>
Increase in unrestricted net assets	330,004	372,768
Unrestricted net assets - beginning of year	<u>3,046,779</u>	<u>2,674,011</u>
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<u><u>\$ 3,376,783</u></u>	<u><u>\$ 3,046,779</u></u>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 330,004	\$ 372,768
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	16,252	27,844
Changes in assets and liabilities:		
Grants and other receivables	(1,788,475)	30,348
Inventories	8,133	30,101
Prepaid expenses	(11,758)	(11,875)
Accounts payable	93,692	(256,754)
Accrued expenses	24,424	44,065
Deferred grant revenue	<u>1,422,579</u>	<u>172,504</u>
Net cash provided by operating activities	94,851	409,001
Cash used in investing activities:		
Additions to property and equipment	<u>(16,982)</u>	<u>(25,349)</u>
Net increase in cash and cash equivalents	77,869	383,652
Cash and cash equivalents - beginning	<u>5,446,350</u>	<u>5,062,698</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 5,524,219</u></b>	<b><u>\$ 5,446,350</u></b>

See accompanying notes to financial statements.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008 AND 2007

**NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS**

Foundations, Inc. (the "Organization") is a not-for-profit educational service organization committed to building the quality of educational opportunities for children, youth, and families through work with public and charter schools, school districts, education and community-based organizations, and the afterschool field. The Organization focuses on capacity-building through professional development, technical assistance, program development, and supporting tools, publications, and services. The Organization receives its support from various sources including foundation grant programs, government grants, consulting fees, contributions from a private foundation, and tuition.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Financial Statement Presentation

The Organization follows Statement of Financial Accounting Standards ("SFAS") No. 116, "Accounting for Contributions Received and Contributions Made," and SFAS No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 116 requires the Organization to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. Unrestricted net assets represent expendable funds that are available to support the operating activities of the Organization. Temporarily restricted net assets represent expendable funds that are earmarked for specific purposes. When the funds are expended, the restriction is satisfied and the funds are released from restriction. SFAS No. 116 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. SFAS No. 117 establishes standards for general-purpose external financial statements for not-for-profit organizations and requires a statement of net assets, a statement of activities and a statement of cash flows.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and Cash Equivalents

For purposes of the financial statements, the Organization considers all highly liquid investments with maturities of three months or less from the date of purchase to be cash equivalents.

Grants and Other Receivables

Grants and other receivables are reported at amounts management expects to collect on balances outstanding at year-end. On a periodic basis, the Organization evaluates such receivables and establishes an allowance for doubtful accounts based upon a history of write-offs, collections and current credit conditions. At August 31, 2008 and 2007, management determined that no allowance was required.

Inventories

Inventories consist of curriculum guides and are valued at the lower of cost or market, with cost determined by the first-in, first-out (FIFO) method.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2008 AND 2007

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment purchased are stated at cost. Property and equipment contributed to the Organization are recorded at fair value on the date received. Depreciation is computed using the straight-line method based on estimated useful lives ranging from three to seven years for each class of depreciable assets. Maintenance and repairs are charged to operations when incurred. Property and equipment purchased under the grant contracts, which become the property of the recipient, are expensed to the applicable program.

Revenue Recognition

The Organization recognizes revenue from contracts, grants and technical services to schools, extended day educational enrichment programs in public schools, and other instructional programs as earned. Revenue under cost reimbursement contracts is recognized as the related costs are incurred. Advances from grantor agencies prior to the Organization's compliance with the specified grant conditions are reflected on the statements of financial position as deferred grant revenue.

Contributions are recognized when a donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give are recognized as contributions when substantially all conditions are met.

Functional Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Segregated Funds

The Organization received grants from the Pennsylvania Department of Community and Economic Development ("DCED"). These funds have been segregated and are maintained in a separate account.

Income Taxes

The Organization is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on its exempt income under Sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code. Contributions to the Organization are deductible to the extent permitted by law. The Organization is also exempt from state and local income taxes.

Reclassifications

Certain items in the 2007 financial statements have been reclassified to conform to the 2008 presentation. These reclassifications had no effect on previously reported changes in net assets.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2008 AND 2007**

**NOTE 3. CONCENTRATIONS OF RISK**

At August 31, 2008 and 2007, and routinely throughout both years, the Organization maintained cash and cash equivalents with a financial institution in amounts in excess of the coverage provided by federal insurance limits. The Organization maintains these accounts with a high credit quality financial institution, and, therefore, management does not believe the Organization faces a significant risk of loss on these accounts.

During the year ended August 31, 2008, the Organization recognized 14% of its revenues from the School District of Philadelphia, 10% from the Pennsylvania Department of Community and Economic Development, and 20% from a foundation grant program. During the year ended August 31, 2007, the Organization recognized 18% of its revenues from the School District of Philadelphia and 22% from a foundation grant program.

**NOTE 4. RELATED PARTY TRANSACTIONS**

During the years ended August 31, 2008 and 2007, the Organization received contributions from The Schwartz Foundation of \$700,000 and \$647,086, respectively. In addition, during the years ended August 31, 2008 and 2007, the Organization received project grants of up to \$250,000 and \$1,000,000, respectively, from The Schwartz Foundation, of which \$250,000 and \$627,375, respectively, was received. Of the grant proceeds, \$249,859 and \$550,356 was expended in 2008 and 2007, respectively, in accordance with the terms of the grant; accordingly, these amounts have been recognized as both revenues (grants received) and expenses (program expenses) in the accompanying statements of activities. The remaining amount of \$77,019 from the funds received in 2007 was fully expended in 2008.

The Organization is also dependent on The Schwartz Foundation to fund a significant portion of its administrative and other expenses. One of the directors of The Schwartz Foundation is also the president and director of the Organization.

**NOTE 5. PROPERTY AND EQUIPMENT**

The Organization's property and equipment consisted of the following at August 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 45,980	\$ 45,980
Furniture and equipment	<u>367,099</u>	<u>740,083</u>
	413,079	786,063
Less: accumulated depreciation	<u>360,519</u>	<u>734,233</u>
	<u>\$ 52,560</u>	<u>\$ 51,830</u>

Depreciation expense was \$16,252 and \$27,844 for the years ended August 31, 2008 and 2007, respectively. During 2008, the Organization disposed of computer equipment with an original cost and accumulated depreciation of \$389,968. These fully depreciated assets are no longer in the Organization's operations.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2008 AND 2007**

**NOTE 6.     RETIREMENT PLAN**

The Organization sponsors a tax-deferred retirement plan for its employees under Section 403(b) of the Code. The plan gives employees the option to contribute a percentage of their pre-tax earnings to the plan, subject to the Internal Revenue Service's limitations. For full-time employees and part-time employees who worked a minimum of 1,200 hours in the previous 12 months, the Organization matches 50% of employee contributions up to a maximum of 6% or \$6,000 of each employee's salary. For the years ended August 31, 2008 and 2007, the Organization made matching contributions of \$142,407 and \$157,252, respectively.

**NOTE 7.     LEASES**

The Organization leases office space under three non-cancelable operating leases expiring through December 31, 2011. Future minimum payments under all non-cancelable leases as of August 31, 2008, are as follows:

<u>Year Ending August 31:</u>	<u>Amount</u>
2009	\$ 280,134
2010	234,356
2011	232,323
2012	<u>78,019</u>
	<u>\$ 824,832</u>

Rent expense for all operating leases was \$292,512 and \$295,864 for the years ended August 31, 2008 and 2007, respectively.

**NOTE 8.     COMMITMENTS AND CONTINGENCIES**

During the normal course of business, the Organization is party to several claims and legal proceedings. Any known and anticipated costs have been reserved in the financial statements and the Organization does not believe that these claims, individually or in the aggregate, would have a material adverse effect on its business, financial position or operations.