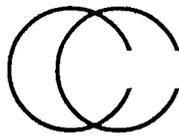


FOUNDATIONS, INC.
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2009 AND 2008

FOUNDATIONS, INC.
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

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Citrin Cooperman & Company, LLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Foundations, Inc.
Moorestown, New Jersey

We have audited the accompanying statements of financial position of Foundations, Inc. (the "Organization") as of August 31, 2009 and 2008, 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 audit 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 Foundations, Inc.'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. An audit also includes 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, 2009 and 2008, 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 5, 2010

FOUNDATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 8,173,065	\$ 5,524,219
Grants and other receivables	1,776,552	1,922,738
Inventories	53,002	52,682
Prepaid expenses	-	37,388
Property and equipment, net	38,389	52,560
Deposits	<u>27,000</u>	<u>27,000</u>
TOTAL ASSETS	<u>\$ 10,068,008</u>	<u>\$ 7,616,587</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 263,589	\$ 147,604
Accrued expenses	301,109	240,247
Deferred grant revenue	<u>5,979,592</u>	<u>3,851,953</u>
Total liabilities	6,544,290	4,239,804
Commitments and contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>3,523,718</u>	<u>3,376,783</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,068,008</u>	<u>\$ 7,616,587</u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Revenue and other support:		
Conference fees	\$ 455,164	\$ 461,971
Contract services	4,247,427	3,633,322
Contributions	727,992	729,059
Grants:		
Foundations and other granting entities	3,856,753	4,610,538
State and federal	2,421,560	1,857,215
Interest and other income	59,851	185,327
Product sales	143,351	240,507
Tuition	<u>130,732</u>	<u>200,021</u>
Total revenue and other support	<u>12,042,830</u>	<u>11,917,960</u>
Expenses:		
Program services:		
Conference	266,929	347,735
Contract services	3,034,059	2,179,376
Foundations and other granting entities	3,291,872	4,219,436
State and federal	2,379,064	1,866,769
Tuition	132,134	188,058
Product sales	84,170	75,242
Administrative	<u>2,707,667</u>	<u>2,711,340</u>
Total expenses	<u>11,895,895</u>	<u>11,587,956</u>
Increase in unrestricted net assets	146,935	330,004
Unrestricted net assets - beginning of year	<u>3,376,783</u>	<u>3,046,779</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 3,523,718</u>	<u>\$ 3,376,783</u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 146,935	\$ 330,004
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	19,551	16,252
Changes in assets and liabilities:		
Grants and other receivables	146,186	(1,788,475)
Inventories	(320)	8,133
Prepaid expenses	37,388	(11,758)
Accounts payable	115,985	93,692
Accrued expenses	60,862	24,424
Deferred grant revenue	<u>2,127,639</u>	<u>1,422,579</u>
Net cash provided by operating activities	2,654,226	94,851
Cash used in investing activities:		
Additions to property and equipment	<u>(5,380)</u>	<u>(16,982)</u>
Net increase in cash and cash equivalents	2,648,846	77,869
Cash and cash equivalents - beginning	<u>5,524,219</u>	<u>5,446,350</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 8,173,065</u>	<u>\$ 5,524,219</u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

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, performance contracts, product sales, 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, 2009 and 2008, management determined that no allowance was required.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 in 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.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain Tax Positions

In June 2006, the Financial Accounting Standards Board ("FASB") released FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes." FIN 48 interprets the guidance in Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position ("FSP") FIN 48-3, "Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises." As deferred by the guidance in FSP FIN 48-3, the Organization is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Organization has not implemented those provisions in the financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Organization continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, "Accounting for Contingencies." Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of August 31, 2009, the Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Subsequent events

The Organization adopted SFAS No. 165, "Subsequent Events," as of August 31, 2009. This statement requires disclosure of the date through which an entity has evaluated subsequent events and whether that date represents the date the financial statements were issued or were available to be issued. The Organization has evaluated material subsequent events through the date that these financial statements were available to be issued on January 5, 2010.

NOTE 3. CONCENTRATIONS OF RISK

At August 31, 2009 and 2008, 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.

As of August 31, 2009, the Organization recognized 29% of its accounts receivable from the School District of Philadelphia, 25% from the Commonwealth of Pennsylvania Department of Education, and 14% from a foundation grant program. As of August 31, 2008, the Organization recognized 52% of its accounts receivable from the Pennsylvania Department of Community and Economic Development and 15% from the Commonwealth of Pennsylvania Department of Education.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 3. CONCENTRATIONS OF RISK (CONTINUED)

During the year ended August 31, 2009, the Organization recognized 22% of its revenues from the School District of Philadelphia, 10% from the Pennsylvania Department of Community and Economic Development, and 11% from the Commonwealth of Pennsylvania Department of Education. 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.

NOTE 4. RELATED PARTY TRANSACTIONS

The Organization is dependent on the Schwartz Foundation to fund a significant portion of its administrative and other expenses. During the years ended August 31, 2009 and 2008, the Organization received contributions from The Schwartz Foundation of \$699,998 and \$700,000, respectively. In addition, during the year ended August 31, 2008, the Organization received project grants of \$250,000 from The Schwartz Foundation. Of the grant proceeds, \$141 and \$249,859 were expended in 2009 and 2008, respectively, in accordance with the terms of the grant. These amounts have been recognized as both revenues (grants received) and expenses (program expenses) in the accompanying statements of activities.

One of the directors of The Schwartz Foundation is also the chairman of the Organization.

NOTE 5. PROPERTY AND EQUIPMENT

The Organization's property and equipment consisted of the following at August 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Leasehold improvements	\$ 45,980	\$ 45,980
Furniture and equipment	<u>372,479</u>	<u>367,099</u>
	418,459	413,079
Less: accumulated depreciation	<u>(380,070)</u>	<u>(360,519)</u>
Property and equipment, net	<u>\$ 38,389</u>	<u>\$ 52,560</u>

Depreciation expense was \$19,551 and \$16,252 for the years ended August 31, 2009 and 2008, 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.

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, 2009 and 2008, the Organization made matching contributions of \$133,573 and \$142,407, respectively.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2009 AND 2008

NOTE 7. LEASES

The Organization leases office space under three non-cancelable operating leases expiring through December 31, 2011. The Organization has an additional operating lease that also expires on December 31, 2011. Future minimum payments under all non-cancelable leases as of August 31, 2009, are as follows:

<u>Year Ending August 31:</u>	<u>Amount</u>
2010	\$ 272,593
2011	271,668
2012	<u>80,663</u>
	<u>\$ 624,924</u>

Rent expense for all operating leases was \$340,157 and \$292,512 for the years ended August 31, 2009 and 2008, 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. 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.