

**FOUNDATIONS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2010 AND 2009**

**FOUNDATIONS, INC.**  
**FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

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## 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, 2010 and 2009, 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 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, 2010 and 2009, 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.

*Citricooperman & Company, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

December 21, 2010

**FOUNDATIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 6,937,624	\$ 8,173,065
Grants and other receivables	990,482	1,776,552
Inventories	45,420	53,002
Property and equipment, net	46,153	38,389
Deposits	<u>27,000</u>	<u>27,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,046,679</u></b>	<b><u>\$ 10,068,008</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable	\$ 233,322	\$ 263,589
Accrued expenses	117,779	301,109
Deferred grant revenue	<u>4,074,160</u>	<u>5,979,592</u>
Total liabilities	4,425,261	6,544,290
Commitments and contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>3,621,418</u>	<u>3,523,718</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,046,679</u></b>	<b><u>\$ 10,068,008</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Revenue and other support:		
Conference fees	\$ 359,664	\$ 455,164
Contract services	4,171,856	4,247,427
Contributions	574,291	727,992
Grants:		
Foundations and other granting entities	3,659,081	3,856,753
State and federal	2,946,305	2,421,560
Interest and other income	27,337	59,851
Product sales	132,631	143,351
Tuition	<u>104,435</u>	<u>130,732</u>
Total revenue and other support	<u>11,975,600</u>	<u>12,042,830</u>
Expenses:		
Program services:		
Conference	246,003	266,929
Contract services	3,182,469	3,034,059
Foundations and other granting entities	3,309,776	3,291,872
State and federal	2,419,470	2,379,064
Tuition	111,250	132,134
Product sales	46,804	84,170
Administrative	<u>2,562,128</u>	<u>2,707,667</u>
Total expenses	<u>11,877,900</u>	<u>11,895,895</u>
Increase in unrestricted net assets	97,700	146,935
Unrestricted net assets - beginning of year	<u>3,523,718</u>	<u>3,376,783</u>
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<b><u>\$ 3,621,418</u></b>	<b><u>\$ 3,523,718</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 97,700	\$ 146,935
Adjustments to reconcile increase in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	14,196	19,551
Changes in assets and liabilities:		
Grants and other receivables	786,070	146,186
Inventories	7,582	(320)
Prepaid expenses	-	37,388
Accounts payable	(30,267)	115,985
Accrued expenses	(183,330)	60,862
Deferred grant revenue	<u>(1,905,432)</u>	<u>2,127,639</u>
Net cash provided by (used in) operating activities	(1,213,481)	2,654,226
Cash used in investing activities:		
Additions to property and equipment	<u>(21,960)</u>	<u>(5,380)</u>
Net increase (decrease) in cash and cash equivalents	(1,235,441)	2,648,846
Cash and cash equivalents - beginning	<u>8,173,065</u>	<u>5,524,219</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 6,937,624</u></b>	<b><u>\$ 8,173,065</u></b>

See accompanying notes to financial statements.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2010 AND 2009

**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**

Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that established the FASB Accounting Standards Codification ("Codification" or "ASC") as the source of authoritative generally accepted accounting principles ("GAAP") recognized by the FASB to be applied to all nongovernmental entities. The Codification supersedes all of the existing accounting and reporting standards applicable to privately held companies upon its effective date and, subsequently, the FASB will not issue new standards in the form of FASB Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. The guidance is not intended to change or alter existing GAAP. The guidance became effective for the Organization for the fiscal year ended August 31, 2010. The guidance did not have an impact on the Organization's financial position, results of operations or cash flows. All references to previous numbering of FASB Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts have been removed from the financial statements and accompanying notes.

On September 1, 2009, the Organization adopted new accounting guidance found in FASB ASC 820, *Fair Value Measurements and Disclosures*, for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Adoption of the new guidance did not have a material impact on the Organization's financial statements.

On September 1, 2009, the Organization adopted the new standard regarding accounting for uncertainty in income taxes. The Organization is required to apply the "more likely than not" threshold to the recognition and derecognition of tax positions. The standard also provides guidance on the measurement of tax positions, balance sheet classification, interest and penalties, accounting in interim periods, disclosures, and transition. Adoption of the standard did not have a material effect on the Organization's financial statements.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2010 AND 2009

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial Statement Presentation

The Organization follows FASB ASC 958, *Not-for-Profit Entities*, which 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. FASB ASC 958 also requires recognition of contributions, including donated services meeting certain criteria, at fair values. FASB ASC 958 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. The Organization only has unrestricted net assets.

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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, 2010 and 2009, 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, 2010 AND 2009

**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 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.

Subsequent Events

The Organization has evaluated material subsequent events through the date that these financial statements were available to be issued on December 21, 2010.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2010 AND 2009**

**NOTE 3. CONCENTRATIONS OF RISK**

At August 31, 2010 and 2009, and routinely throughout both years, the Organization maintained cash and cash equivalents with three financial institutions in amounts in excess of the coverage provided by federal insurance limits. The Organization maintains these accounts with high credit quality financial institutions, and, therefore, management does not believe the Organization faces a significant risk of loss on these accounts.

As of August 31, 2010, the Organization recognized 48% of its accounts receivable from the Commonwealth of Pennsylvania Department of Education, and 14% from a charter school that the Organization manages. 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.

During the year ended August 31, 2010, the Organization recognized 16% of its revenues from the School District of Philadelphia, 18% from the Commonwealth of Pennsylvania Department of Education, and 14% from a foundation grant program. 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.

**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, 2010 and 2009, the Organization received contributions from The Schwartz Foundation of \$500,000 and \$699,998, respectively.

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

The Organization also receives donations from its employees. During the years ended August 31, 2010 and 2009, the Organization received contributions from employees of \$11,864 and \$1,775, respectively.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2010 AND 2009**

**NOTE 5. PROPERTY AND EQUIPMENT**

The Organization's property and equipment consisted of the following at August 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Leasehold improvements	\$ 45,980	\$ 45,980
Furniture and equipment	<u>394,439</u>	<u>372,479</u>
	440,419	418,459
Less: accumulated depreciation	<u>(394,266)</u>	<u>(380,070)</u>
Property and equipment, net	<u>\$ 46,153</u>	<u>\$ 38,389</u>

Depreciation expense was \$14,196 and \$19,551 for the years ended August 31, 2010 and 2009, respectively.

**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% of each employee's salary, or \$6,000 per employee. For the years ended August 31, 2010 and 2009, the Organization made matching contributions of \$128,391 and \$133,573, respectively.

**NOTE 7. LEASES**

The Organization leases office space under two 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, 2010, are as follows:

<u>Year Ending August 31:</u>	<u>Amount</u>
2011	\$ 240,254
2012	<u>80,663</u>
	<u>\$ 320,917</u>

Rent expense for all operating leases was \$313,847 and \$340,157 for the years ended August 31, 2010 and 2009, 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.