

**FOUNDATIONS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2011 AND 2010**

**FOUNDATIONS, INC.**  
**FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Foundations, Inc.  
Mount Laurel, New Jersey

We have audited the accompanying statements of financial position of Foundations, Inc. (the "Organization") as of August 31, 2011 and 2010, 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, 2011 and 2010, 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 25, 2012

**FOUNDATIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<u><b>ASSETS</b></u>		
Cash and cash equivalents	\$ 4,386,597	\$ 6,937,624
Grants and other receivables	1,328,179	990,482
Inventories	26,748	45,420
Property and equipment, net	41,042	46,153
Deposits	<u>27,000</u>	<u>27,000</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>5,809,566</u></b>	<b>\$ <u>8,046,679</u></b>
<u><b>LIABILITIES AND NET ASSETS</b></u>		
Liabilities:		
Accounts payable	\$ 83,077	\$ 233,322
Accrued expenses	581,392	619,265
Deferred grant revenue	<u>1,424,621</u>	<u>3,572,674</u>
Total liabilities	2,089,090	4,425,261
Commitments and contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>3,720,476</u>	<u>3,621,418</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>5,809,566</u></b>	<b>\$ <u>8,046,679</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Revenue and other support:		
Conference fees	\$ 864,074	\$ 359,664
Contract services	4,546,510	4,171,856
Contributions	534,704	574,291
Grants:		
Foundations and other granting entities	2,646,039	3,659,081
State and federal	2,232,897	2,946,305
Interest and other income	16,952	27,337
Product sales	125,093	132,631
Tuition	<u>92,547</u>	<u>104,435</u>
Total revenue and other support	<u>11,058,816</u>	<u>11,975,600</u>
Expenses:		
Program services:		
Conference	336,652	246,003
Contract services	3,225,700	3,182,469
Foundations and other granting entities	2,312,901	3,309,776
State and federal	2,227,895	2,419,470
Tuition	67,172	111,250
Product sales	174,257	46,804
Administrative	<u>2,615,181</u>	<u>2,562,128</u>
Total expenses	<u>10,959,758</u>	<u>11,877,900</u>
Increase in unrestricted net assets	99,058	97,700
Unrestricted net assets - beginning of year	<u>3,621,418</u>	<u>3,523,718</u>
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<b><u>\$ 3,720,476</u></b>	<b><u>\$ 3,621,418</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 99,058	\$ 97,700
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Depreciation	18,714	14,196
Changes in assets and liabilities:		
Grants and other receivables	(337,697)	786,070
Inventories	18,672	7,582
Accounts payable	(150,245)	(30,267)
Accrued expenses	(37,873)	(288,592)
Deferred grant revenue	<u>(2,148,053)</u>	<u>(1,800,170)</u>
Net cash used in operating activities	(2,537,424)	(1,213,481)
Cash used in investing activities:		
Additions to property and equipment	<u>(13,603)</u>	<u>(21,960)</u>
Net decrease in cash and cash equivalents	(2,551,027)	(1,235,441)
Cash and cash equivalents - beginning	<u>6,937,624</u>	<u>8,173,065</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 4,386,597</u></b>	<b><u>\$ 6,937,624</u></b>

See accompanying notes to financial statements.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2011 AND 2010

**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 accounting principles generally accepted in the United States of America ("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, 2011 AND 2010**

**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 financial position, 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, 2011 and 2010, 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, 2011 AND 2010

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.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2011 AND 2010**

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

Uncertain tax positions

Effective September 1, 2009, the Organization implemented the new accounting requirements associated with uncertainty in income taxes using the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the financial statements when it is more likely than not that the positions will be sustained upon examination by the taxing authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of August 31, 2011 and 2010, the Organization had no uncertain tax positions that qualified for either recognition or disclosure in the financial statements. Additionally, the Organization had no interest and penalties related to income taxes.

The Organization files income tax returns in the U.S. federal jurisdiction and in various state and local jurisdictions. With few exceptions, the Organization is no longer subject to U.S. federal, state and local income tax examinations by taxing authorities for years before fiscal year ended August 31, 2008.

Reclassifications

Certain items in the financial statements for fiscal year ended August 31, 2010 have been reclassified to conform to the presentation for fiscal year ended August 31, 2011. These reclassifications had no effect on previously reported changes in net assets.

Subsequent Events

The Organization has evaluated material subsequent events through January 25, 2012, the date on which these financial statements were available to be issued.

**NOTE 3. CONCENTRATIONS OF RISK**

At August 31, 2011 and 2010, 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, 2011, the Organization recognized 43% of its accounts receivable from a foundation grant program. 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.

During the year ended August 31, 2011, the Organization recognized 18% of its revenues from the School District of Philadelphia, 16% from a foundation grant program, and 13% from the Commonwealth of Pennsylvania Department of Community and Economic Development. 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.

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**NOTE 4. RELATED PARTY TRANSACTIONS**

The Organization is dependent on The Schwartz Foundation to fund a significant portion of its administrative and other expenses. The Organization received contributions from The Schwartz Foundation of \$500,000, for each of the fiscal years ended August 31, 2011 and 2010.

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, 2011 and 2010, the Organization received contributions from employees of \$3,035 and \$11,864, respectively.

**NOTE 5. PROPERTY AND EQUIPMENT**

The Organization's property and equipment consisted of the following at August 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Leasehold improvements	\$ 45,980	\$ 45,980
Furniture and equipment	<u>408,042</u>	<u>394,439</u>
	454,022	440,419
Less: accumulated depreciation	<u>(412,980)</u>	<u>(394,266)</u>
Property and equipment, net	<u>\$ 41,042</u>	<u>\$ 46,153</u>

Depreciation expense was \$18,714 and \$14,196 for the years ended August 31, 2011 and 2010, 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, 2011 and 2010, the Organization made matching contributions of \$115,077 and \$128,391, respectively.

**NOTE 7. LEASES**

The Organization leases office space under two non-cancelable operating leases expiring on December 31, 2011. On August 2, 2011 the Organization entered into a new lease for an automobile that is utilized by the CEO. The monthly payments for this lease are \$661 and the lease expires on July 31, 2014.

The Organization entered into a five and a half year non-cancelable operating lease for new office space in Mount Laurel, NJ beginning on December 20, 2011. No rent expense was incurred as of August 31, 2011 for this operating lease. The lease provides for a minimum monthly rental payment of \$8,348, plus the Organization's proportionate share of property taxes, and maintenance costs.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 7. LEASES (CONTINUED)**

Future minimum payments under all non-cancelable leases as of August 31, 2011, are as follows:

<u>Year Ending August 31:</u>	<u>Amount</u>
2012	\$ 110,255
2013	112,934
2014	120,682
2015	122,437
2016	<u>130,785</u>
	<u>\$ 597,093</u>

Rent expense for all operating leases was \$291,860 and \$313,847 for the years ended August 31, 2011 and 2010, 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.