

**FOUNDATIONS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2012 AND 2011**

**FOUNDATIONS, INC.**  
**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

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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, 2012 and 2011, 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, 2012 and 2011, 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 7, 2013

**FOUNDATIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 3,935,226	\$ 4,386,597
Grants and other receivables	869,197	1,328,179
Inventories	29,366	26,748
Prepaid expenses	31,793	-
Property and equipment, net	80,261	41,042
Deposits	<u>35,472</u>	<u>27,000</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,981,315</u></b>	<b><u>\$ 5,809,566</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Liabilities:		
Accounts payable	\$ 71,244	\$ 83,077
Accrued expenses	363,045	581,392
Deferred rent	117,951	-
Deferred grant revenue	<u>690,700</u>	<u>1,424,621</u>
Total liabilities	1,242,940	2,089,090
Commitments and contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>3,738,375</u>	<u>3,720,476</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 4,981,315</u></b>	<b><u>\$ 5,809,566</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Revenue and other support:		
Conference fees	\$ 874,464	\$ 864,074
Contract services	2,146,400	4,546,510
Contributions	502,704	534,704
Grants:		
Foundations and other granting entities	1,379,925	2,646,039
State and federal	2,343,647	2,232,897
Interest and other income	9,013	16,952
Product sales	83,084	125,093
Tuition	<u>162,305</u>	<u>92,547</u>
Total revenue and other support	<u>7,501,542</u>	<u>11,058,816</u>
Expenses:		
Program services:		
Conference	467,155	336,652
Contract services	1,734,103	3,225,700
Foundations and other granting entities	219,540	2,312,901
State and federal	2,189,256	2,227,895
Tuition	111,669	67,172
Product sales	56,233	174,257
Administrative	<u>2,705,687</u>	<u>2,615,181</u>
Total expenses	<u>7,483,643</u>	<u>10,959,758</u>
Increase in unrestricted net assets	17,899	99,058
Unrestricted net assets - beginning of year	<u>3,720,476</u>	<u>3,621,418</u>
<b>UNRESTRICTED NET ASSETS - END OF YEAR</b>	<u><u>\$ 3,738,375</u></u>	<u><u>\$ 3,720,476</u></u>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Increase in unrestricted net assets	\$ 17,899	\$ 99,058
Adjustments to reconcile increase in unrestricted net assets to net cash used in operating activities:		
Depreciation	22,391	18,714
Loss on disposition of fixed asset	12,444	-
Changes in assets and liabilities:		
Grants and other receivables	458,982	(337,697)
Inventories	(2,618)	18,672
Prepaid expenses	(31,793)	-
Deposits	(8,472)	-
Accounts payable	(11,833)	(150,245)
Accrued expenses	(218,347)	(37,873)
Deferred rent	117,951	-
Deferred grant revenue	<u>(733,921)</u>	<u>(2,148,053)</u>
Net cash used in operating activities	(377,317)	(2,537,424)
Cash used in investing activities:		
Additions to property and equipment	<u>(74,054)</u>	<u>(13,603)</u>
Net decrease in cash and cash equivalents	(451,371)	(2,551,027)
Cash and cash equivalents - beginning	<u>4,386,597</u>	<u>6,937,624</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 3,935,226</u></b>	<b><u>\$ 4,386,597</u></b>

See accompanying notes to financial statements.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012 AND 2011

**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 Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("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 accounting principles generally accepted in the United States of America ("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.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012 AND 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012 and 2011, 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.

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.

FOUNDATIONS, INC.  
NOTES TO FINANCIAL STATEMENTS  
AUGUST 31, 2012 AND 2011

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

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.

Uncertain Tax Positions

The Organization follows accounting requirements associated with uncertainty in income taxes using the provisions of FASB 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, 2012 and 2011, 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, 2009.

Subsequent Events

In accordance with FASB ASC 855, Subsequent Events, the Organization has evaluated subsequent events through January 7, 2013, the date on which these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

**NOTE 3. CONCENTRATIONS OF RISK**

At August 31, 2012 and 2011, 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, 2012, the Organization recognized 18% of its accounts receivable from the Commonwealth of Pennsylvania Department of Education and 31% from 2 charter schools that the Organization manages. As of August 31, 2011, the Organization recognized 43% of its accounts receivable from a foundation grant program.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2012 AND 2011**

**NOTE 3. CONCENTRATIONS OF RISK (CONTINUED)**

During the year ended August 31, 2012, the Organization recognized 12% of its revenues from the Commonwealth of Pennsylvania Department of Education, 14% from the Commonwealth of Pennsylvania Department of Community and Economic Development, 15% from a foundation grant program, 20% from a client services contract and 12% from conference registration fees and donations. During the year ended August 31, 2011, the Organization recognized 18% of its revenues from the School District of Philadelphia, 13% from the Commonwealth of Pennsylvania Department of Education, and 16% 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. The Organization received contributions from The Schwartz Foundation of \$499,992 and \$500,000, for the fiscal years ended August 31, 2012 and 2011, 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, 2012 and 2011, the Organization received contributions from employees of \$660 and \$3,035, respectively.

**NOTE 5. PROPERTY AND EQUIPMENT**

The Organization's property and equipment consisted of the following at August 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Leasehold improvements	\$ -	\$ 45,980
Furniture and equipment	<u>228,696</u>	<u>408,042</u>
	228,696	454,022
Less: accumulated depreciation	<u>(148,435)</u>	<u>(412,980)</u>
Property and equipment, net	<u>\$ 80,261</u>	<u>\$ 41,042</u>

Depreciation expense was \$22,391 and \$18,714 for the years ended August 31, 2012 and 2011, 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, 2012 and 2011, the Organization made matching contributions of \$102,579 and \$115,077, respectively.

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**NOTE 7. LEASES**

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. The rental payments under the lease are based on a minimum rental, plus additional rent comprised of the Organization's proportionate share of property taxes, insurance, and maintenance costs.

On June 1, 2012 the Organization entered into an additional non-cancelable lease for space used to run one of the Organization's after-school programs. The lease provides for a minimum monthly rental payment of \$11,367 and the lease expires on June 30, 2013.

On August 2, 2011 the Organization entered into a lease for an automobile that is utilized by the CEO. The monthly payments for this lease are \$600 and the lease expires on July 31, 2014.

On June 28, 2012, the Organization entered into a new lease for a van that is utilized to transfer students to an after-school program. The monthly payments for this lease are \$797 and the lease expires on June 30, 2015.

Future minimum payments under all non-cancelable leases as of August 31, 2012, are as follows:

<u>Year ending August 31:</u>	<u>Amount</u>
2013	\$ 374,937
2014	273,154
2015	276,786
2016	282,358
2017	<u>220,522</u>
	<u>\$ 1,427,757</u>

Rent expense for all operating leases was \$306,138 and \$291,860 for the years ended August 31, 2012 and 2011, 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 accrued 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 results of operations.