

FOUNDATIONS, INC.
FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2013 AND 2012

FOUNDATIONS, INC.
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Foundations, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Foundations, Inc. (the "Organization") (a nonprofit organization), which comprise the statements of financial position as of August 31, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, 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

Philadelphia, Pennsylvania
December 3, 2013

FOUNDATIONS, INC.
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Cash and cash equivalents	\$ 2,501,682	\$ 3,935,226
Grants and other receivables	679,333	869,197
Inventories	48,712	29,366
Prepaid expenses	32,855	31,793
Property and equipment, net	67,016	80,261
Deposits	<u>35,472</u>	<u>35,472</u>
TOTAL ASSETS	<u>\$ 3,365,070</u>	<u>\$ 4,981,315</u>
<u>LIABILITIES AND NET ASSETS</u>		
Accounts payable	\$ 38,680	\$ 71,244
Accrued expenses and other liabilities	296,391	363,045
Deferred grant revenue	242,104	690,700
Deferred rent	<u>114,912</u>	<u>117,951</u>
Total liabilities	692,087	1,242,940
Commitments and contingencies (Notes 6, 7, and 8)		
Unrestricted net assets	<u>2,672,983</u>	<u>3,738,375</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,365,070</u>	<u>\$ 4,981,315</u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Revenue and other support:		
Conference fees	\$ 683,724	\$ 874,464
Contract services	1,743,812	2,146,400
Contributions	545,112	502,704
Grants:		
Foundations and other granting entities	30,619	1,379,925
State and federal	2,258,280	2,343,647
Interest and other income	5,926	9,013
Product sales	106,512	83,084
Tuition	<u>50,114</u>	<u>162,305</u>
Total revenue and other support	<u>5,424,099</u>	<u>7,501,542</u>
Expenses:		
Program services:		
Conference	375,810	467,155
Contract services	1,648,541	1,734,103
Foundations and other granting entities	30,619	219,540
State and federal	2,012,810	2,189,256
Tuition	-	111,669
Product sales	42,787	56,233
Administrative	<u>2,378,924</u>	<u>2,705,687</u>
Total expenses	<u>6,489,491</u>	<u>7,483,643</u>
Increase (decrease) in unrestricted net assets	(1,065,392)	17,899
Unrestricted net assets - beginning	<u>3,738,375</u>	<u>3,720,476</u>
UNRESTRICTED NET ASSETS - ENDING	<u><u>\$ 2,672,983</u></u>	<u><u>\$ 3,738,375</u></u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase (decrease) in unrestricted net assets	\$ (1,065,392)	\$ 17,899
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used in operating activities:		
Depreciation	20,708	22,391
Loss on disposition of fixed asset	-	12,444
Changes in assets and liabilities:		
Grants and other receivables	189,864	458,982
Inventories	(19,346)	(2,618)
Prepaid expenses	(1,062)	(31,793)
Deposits	-	(8,472)
Accounts payable	(32,564)	(11,833)
Accrued expenses	(69,561)	(218,347)
Other current liabilities	2,907	-
Deferred rent	(3,039)	117,951
Deferred grant revenue	<u>(448,596)</u>	<u>(733,921)</u>
Net cash used in operating activities	(1,426,081)	(377,317)
Cash used in investing activities:		
Additions to property and equipment	<u>(7,463)</u>	<u>(74,054)</u>
Net decrease in cash and cash equivalents	(1,433,544)	(451,371)
Cash and cash equivalents - beginning	<u>3,935,226</u>	<u>4,386,597</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 2,501,682</u>	<u>\$ 3,935,226</u>

See accompanying notes to financial statements.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

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, 2013 AND 2012

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, 2013 and 2012, 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.

Deferred Rent

The Organization leases its office building under a five and a half year lease which began in September 2011. Organization recognizes rent on a straight-line basis over the lease term beginning with the date of inception. The Organization records deferred rent liabilities and amortizes the deferred rent over the term of the lease. The result is a current liability of \$6,310 and a long-term liability of \$108,602 for the fiscal year ended August 31, 2013.

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.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2013 and 2012, 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 or local income tax examinations by taxing authorities for years before fiscal year ended August 31, 2010.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated subsequent events through December 3, 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, 2013 and 2012, 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, 2013, the Organization recognized 34% of its accounts receivable from a charter school that the Organization manages and 18% from a client contract. As of August 31, 2012, the Organization recognized 18% of its accounts receivable from the Commonwealth of Pennsylvania Department of Education and 31% from two charter schools that the Organization manages.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

NOTE 3. CONCENTRATIONS OF RISK (CONTINUED)

During the year ended August 31, 2013, the Organization recognized 24% of its revenues from the Commonwealth of Pennsylvania Department of Education, 11% from school business service contracts and 13% from conference registration fees and donations. 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, and 15% 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 \$500,000 and \$499,992, for the fiscal years ended August 31, 2013 and 2012, respectively. One of the directors of The Schwartz Foundation is also the chairman of the Organization.

The Organization also receives donations from its board members and employees. During the years ended August 31, 2013 and 2012, the Organization received contributions from employees of \$1,775 and \$660 and contributions from board members of \$1,250 and \$1,000, respectively.

NOTE 5. PROPERTY AND EQUIPMENT

The Organization's property and equipment consisted of the following at August 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Furniture and equipment	\$ 236,159	\$ 228,696
Less: accumulated depreciation	<u>(169,143)</u>	<u>(148,435)</u>
Property and equipment, net	<u>\$ 67,016</u>	<u>\$ 80,261</u>

Depreciation expense was \$20,708 and \$22,391 for the years ended August 31, 2013 and 2012, 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. During the fiscal year, The Organization suspended the matching contribution indefinitely. For the years ended August 31, 2013 and 2012, the Organization made matching contributions of \$69,734 and \$102,579, respectively.

NOTE 7. LEASES

The Organization entered into a five and a half year non-cancelable operating lease for new office space in Mount Laurel, New Jersey 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.

FOUNDATIONS, INC.
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2013 AND 2012

NOTE 7. LEASES (CONTINUED)

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. The lease expired on June 30, 2013, and was extended on a month-to-month basis through June 30, 2014. During the fiscal year, the Organization entered into an agreement with a charter school effective January 1, 2013 through June 30, 2013, to lease part of this space to the charter school for \$5,833 a month, which offset the rent expense.

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, 2013, are as follows:

<u>Year ending August 31:</u>	<u>Amount</u>
2014	\$ 386,255
2015	276,992
2016	281,751
2017	<u>220,054</u>
	<u>\$ 1,165,052</u>

Rent expense for all operating leases was \$363,599 and \$306,138 for the years ended August 31, 2013 and 2012, respectively.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Legal

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.