

**FOUNDATIONS, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED AUGUST 31, 2014 AND 2013**

FOUNDATIONS, INC.  
FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Foundations, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Foundations, Inc. (a nonprofit organization), which comprise the statements of financial position as of August 31, 2014 and 2013, 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.

### *Auditor's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditor's 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 auditor considers 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, 2014 and 2013, 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.

*Citric Cooperman & Company, LLP*  
CERTIFIED PUBLIC ACCOUNTANTS

Philadelphia, Pennsylvania  
March 3, 2015

**FOUNDATIONS, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 1,999,784	\$ 2,501,682
Grants and other receivables	583,265	679,333
Inventories	29,434	48,712
Prepaid expenses	30,674	32,855
Property and equipment, net	49,831	67,016
Deposits	<u>35,472</u>	<u>35,472</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>2,728,460</u></b>	<b>\$ <u>3,365,070</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Accounts payable	\$ 45,388	\$ 38,680
Accrued expenses and other liabilities	253,410	296,391
Deferred grant revenue	73,354	242,104
Deferred rent	<u>108,292</u>	<u>114,912</u>
Total liabilities	480,444	692,087
Commitments and contingencies (Notes 6, 7, and 8)		
Unrestricted net assets	<u>2,248,016</u>	<u>2,672,983</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>2,728,460</u></b>	<b>\$ <u>3,365,070</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Revenue and other support:		
Conference fees	\$ 791,662	\$ 683,724
Contract services	1,986,776	1,743,812
Contributions	541,964	545,112
Grants:		
Foundations and other granting entities	100,000	30,619
State and federal	1,584,631	2,258,280
Interest and other income	4,452	5,926
Product sales	79,645	106,512
Tuition	<u>24,615</u>	<u>50,114</u>
Total revenue and other support	<u>5,113,745</u>	<u>5,424,099</u>
Expenses:		
Program services:		
Conference	538,949	375,810
Contract services	1,648,999	1,648,541
Foundations and other granting entities	100,000	30,619
State and federal	1,285,093	2,012,810
Tuition	14,747	-
Product sales	63,035	42,787
Administrative	<u>1,887,889</u>	<u>2,378,924</u>
Total expenses	<u>5,538,712</u>	<u>6,489,491</u>
Decrease in unrestricted net assets	(424,967)	(1,065,392)
Unrestricted net assets - beginning	<u>2,672,983</u>	<u>3,738,375</u>
<b>UNRESTRICTED NET ASSETS - ENDING</b>	<u><u>\$ 2,248,016</u></u>	<u><u>\$ 2,672,983</u></u>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	\$ (424,967)	\$ (1,065,392)
Adjustments to reconcile decrease in unrestricted net assets to net cash used in operating activities:		
Depreciation	17,185	20,708
Provision for bad debt	31,724	-
Changes in assets and liabilities:		
Grants and other receivables	64,344	189,864
Inventories	19,278	(19,346)
Prepaid expenses	2,181	(1,062)
Accounts payable	6,708	(32,564)
Accrued expenses	(51,161)	(69,561)
Other current liabilities	8,180	2,907
Deferred rent	(6,620)	(3,039)
Deferred grant revenue	<u>(168,750)</u>	<u>(448,596)</u>
Net cash used in operating activities	(501,898)	(1,426,081)
Cash used in investing activities:		
Additions to property and equipment	<u>-</u>	<u>(7,463)</u>
Net decrease in cash and cash equivalents	(501,898)	(1,433,544)
Cash and cash equivalents - beginning	<u>2,501,682</u>	<u>3,935,226</u>
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<b><u>\$ 1,999,784</u></b>	<b><u>\$ 2,501,682</u></b>

See accompanying notes to financial statements.

**FOUNDATIONS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**AUGUST 31, 2014 AND 2013**

**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, 2014 AND 2013

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, 2014 and 2013, 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 non-cancelable operating lease which began in September 2011. The 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 \$101,982 for the year ended August 31, 2014.

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**  
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**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, 2014 and 2013, 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. With few exceptions, the Organization is no longer subject to U.S. federal income tax examinations by taxing authorities for years before August 31, 2011.

Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Organization has evaluated subsequent events through March 3, 2015, 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, 2014 and 2013, 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, 2014, the Organization recognized 23% of its accounts receivable from a client contract and 20% from the School District of Philadelphia. 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.

**FOUNDATIONS, INC.**  
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**NOTE 3. CONCENTRATIONS OF RISK (CONTINUED)**

During the year ended August 31, 2014, the Organization recognized 18% of its revenues from the Commonwealth of Pennsylvania Department of Education and 15% of its revenue from conference registration fees. 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.

**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 years ended August 31, 2014 and 2013. One of the directors of The Schwartz Foundation is also the chairman of the Organization's Board of Directors.

The Organization also receives donations from its board members and employees. During the years ended August 31, 2014 and 2013, the Organization received contributions from employees of \$1,476 and \$1,775 and contributions from board members of \$1,000 and \$1,250, respectively.

**NOTE 5. PROPERTY AND EQUIPMENT**

The Organization's property and equipment consisted of the following at August 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Furniture and equipment	\$ 236,159	\$ 236,159
Less: accumulated depreciation	<u>(186,328)</u>	<u>(169,143)</u>
Property and equipment, net	<u>\$ 49,831</u>	<u>\$ 67,016</u>

Depreciation expense was \$17,185 and \$20,708 for the years ended August 31, 2014 and 2013, 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 prior year, the Organization suspended the matching contribution indefinitely. Therefore, no match was made for the year ended August 31, 2014. For the year ended August 31, 2013, the Organization made matching contributions of \$69,734.

**NOTE 7. LEASES**

The Organization entered into a five-and-a-half-year non-cancelable operating lease for 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, 2014 AND 2013**

**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. The Organization entered into an agreement with a charter school effective July 1, 2013 through June 30, 2014, to lease part of this space to the charter school for \$6,250 a month, and a new agreement was entered into in June 2014 with the same terms as the previous agreement, expiring on June 30, 2015.

An operating lease entered into on August 2, 2011, with monthly payments of \$600, for the automobile utilized by the CEO expired on July 31, 2014. A new lease was entered into on May 31, 2014, with monthly payments of \$569. This lease expires in May 2017.

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, 2014, are as follows:

<u>Year ending August 31:</u>	<u>Amount</u>
2015	\$ 300,556
2016	310,695
2017	<u>245,639</u>
	<u>\$ 856,890</u>

Rent expense for all operating leases was \$392,093 and \$363,599 for the years ended August 31, 2014 and 2013, 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.

Guarantee of Finance Agreements

The Organization has guaranteed two equipment financing agreements for a client. The client is in default of the agreements and the lender has asserted its claim against the Organization for approximately \$126,840. The Organization feels that ultimately it will not suffer a loss on this matter as a) management believes the primary party to the agreement has sufficient resources to pay its obligations from an escrow account that has sufficient funds to reimburse the Organization should the lender compel payment from the Organization; and b) the Organization has retained counsel to enforce the primary party to the agreement to honor its obligations to the lender. The Organization intends to vigorously defend its claims and does not feel it is probable that it will not prevail.