



**NATIONAL ACADEMY FOUNDATION**  
Financial Statements and Schedule  
December 31, 2008 and 2007  
(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Directors  
National Academy Foundation:

We have audited the accompanying balance sheets of National Academy Foundation (the Foundation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 Foundation'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 National Academy Foundation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in the Schedule for the year ended December 31, 2008 is presented for purposes of additional analysis and is not a required part of the 2008 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2008 basic financial statements taken as a whole.

**KPMG LLP**

September 2, 2009

**NATIONAL ACADEMY FOUNDATION**

Balance Sheets

December 31, 2008 and 2007

<b>Assets</b>	<b>2008</b>	<b>2007</b>
Cash and cash equivalents	\$ 1,732,331	507,054
Contributions and grants receivable, net (note 3)	6,909,169	7,237,442
Other receivables, net of allowance of \$237,913 in 2008 and \$205,208 in 2007 (note 9)	326,131	627,184
Prepaid expenses and other assets	216,769	107,257
Investments (note 4)	8,485,569	10,674,482
Equipment, furniture, and fixtures, net (note 5)	406,175	498,807
Total assets	\$ 18,076,144	19,652,226
<b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued expenses (note 9)	\$ 960,070	899,075
Deferred revenues	604,943	8,343
Amounts held for others (note 6)	28,258	41,701
Total liabilities	1,593,271	949,119
Net assets:		
Unrestricted	5,638,349	6,545,613
Temporarily restricted (notes 7 and 8)	10,314,524	11,627,494
Permanently restricted (note 8)	530,000	530,000
Total net assets	16,482,873	18,703,107
Total liabilities and net assets	\$ 18,076,144	19,652,226

See accompanying notes to financial statements.

## NATIONAL ACADEMY FOUNDATION

### Statements of Activities

Years ended December 31, 2008 and 2007

	<b>2008</b>	<b>2007</b>
Changes in unrestricted net assets:		
Support and revenue:		
Contributions and grants	\$ 1,550,075	2,894,716
Membership fees	920,095	746,150
Registration fees	819,224	913,708
Special event (net of direct donor benefits of \$40,050 in 2007)	—	746,500
Interest and dividends, net	452,199	341,214
Net realized and unrealized (loss) gain on investments	(1,162,065)	164,873
Other income	48,360	50,528
Net assets released from restrictions	9,304,479	6,680,037
Total unrestricted support and revenue	11,932,367	12,537,726
Expenses:		
Program services:		
Academy of Hospitality and Tourism	1,689,708	1,551,920
Academy of Finance	4,184,041	3,768,389
Academy of Information Technology	2,172,483	1,970,017
Academy of Engineering	1,688,876	1,315,536
Total program services	9,735,108	8,605,862
Supporting services:		
Management and general	1,422,155	836,637
Fund-raising	1,682,368	1,248,870
Total supporting services	3,104,523	2,085,507
Total expenses	12,839,631	10,691,369
(Decrease) increase in unrestricted net assets	(907,264)	1,846,357
Changes in temporarily restricted net assets:		
Contributions	8,195,657	5,098,709
Interest and dividends	36,942	60,132
Net realized and unrealized (loss) gain on investments	(241,090)	62,295
Net assets released from restrictions	(9,304,479)	(6,680,037)
Decrease in temporarily restricted net assets	(1,312,970)	(1,458,901)
(Decrease) increase in net assets	(2,220,234)	387,456
Net assets at beginning of year	18,703,107	18,315,651
Net assets at end of year	\$ 16,482,873	18,703,107

See accompanying notes to financial statements.

**NATIONAL ACADEMY FOUNDATION**

Statements of Cash Flows

Years ended December 31, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (2,220,234)	387,456
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:		
Depreciation	284,211	295,520
Net realized and unrealized loss (gain) on investments	1,403,155	(227,168)
Contributed investments	—	(249,980)
Loss on disposal of fixed assets	1,981	432
Changes in assets and liabilities:		
Decrease (increase) in contributions and grants receivable	328,273	(445,570)
Decrease (increase) in other receivables	301,053	(342,412)
(Increase) decrease in prepaid expenses and other assets	(109,512)	37,194
Increase (decrease) in accounts payable and accrued expenses	60,995	(480,352)
Increase (decrease) in deferred revenues	596,600	(42,520)
Decrease in amounts held for others	(13,443)	(4,603)
Net cash provided by (used in) operating activities	<u>633,079</u>	<u>(1,072,003)</u>
Cash flows from investing activities:		
Purchase of fixed assets	(193,560)	(320,751)
Purchase of investments	(3,677,926)	(4,989,061)
Proceeds from sale of investments	4,463,684	4,647,882
Net cash provided by (used in) investing activities	<u>592,198</u>	<u>(661,930)</u>
Net increase (decrease) in cash and cash equivalents	1,225,277	(1,733,933)
Cash and cash equivalents at beginning of year	<u>507,054</u>	<u>2,240,987</u>
Cash and cash equivalents at end of year	\$ <u><u>1,732,331</u></u>	<u><u>507,054</u></u>

See accompanying notes to financial statements.

# NATIONAL ACADEMY FOUNDATION

Notes to Financial Statements

December 31, 2008 and 2007

## (1) Organization

The National Academy Foundation (the Foundation) was incorporated in July 1988 and began operations in 1989 as an educational organization. The Foundation operates as a not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes.

The purpose of the Foundation is to strengthen and expand the pool of high school graduates prepared to enter the workforce. The Foundation serves over 500 academies located in school districts nationwide, specializing in hospitality and tourism (Academy of Hospitality and Tourism), finance (Academy of Finance), information technology (Academy of Information Technology), and engineering (Academy of Engineering). The Foundation creates program goals and produces curriculum for national distribution to the academies and provides teacher training and on-site assistance to the academies, with a specialization in connecting academies to the business world through a model that offers paid internships to students and advisory boards made up of local professionals.

## (2) Summary of Significant Accounting Policies

### *Presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting. Net assets of the Foundation and changes therein are classified and reported as follows:

*Unrestricted assets* – Net assets that are not subject to donor-imposed restrictions.

*Temporarily restricted net assets* – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation or the passage of time.

*Permanently restricted net assets* – Net assets subject to donor-imposed restrictions that stipulate that they be maintained permanently by the Foundation, but permit the Foundation to expend part or all of the income derived therefrom.

Revenues and gains and losses on investments and other assets are reported as changes in unrestricted net assets unless limited by explicit donor-imposed restrictions or by law. Expiration of temporary restrictions on net assets, that is, the donor-imposed stipulated purpose has been accomplished and/or the stipulated time period has elapsed, is reported as net assets released from restrictions. Expenses are reported as decreases in unrestricted net assets.

### *Contributions and Grants*

Contributions and grants, including unconditional promises to give, are reported as revenues in the period received or pledged. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at a risk-free rate. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution. An allowance is recorded for uncollectible contributions based on management's judgment, past collection experience, and other relevant factors.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

## NATIONAL ACADEMY FOUNDATION

### Notes to Financial Statements

December 31, 2008 and 2007

During 2008, the Foundation received contributed services primarily in the form of donated course development, video production and marketing and promotion printing. The value of such in-kind contributions, based upon information provided by the third party providing the services was approximately \$1,205,000 for the year ended December 31, 2008. Such donated services have been reflected in the accompanying statement of activities as contributions and grant revenue and program expense.

#### ***Membership Fees and Registration Fees***

Membership fees consist of a one-time fee for new programs within a school district and an annual fee that was imposed beginning in 2006. Registration fees consist of fees for conferences. These fees are recorded as revenue when earned. Amounts received in advance are recorded as deferred revenues.

#### ***Cash Equivalents***

Cash equivalents represent highly liquid debt instruments with original maturities of three months or less, except for those cash equivalents invested for long-term purposes. Cash equivalents include a money market fund as of December 31, 2008 and 2007 in the amount of \$1,732,331 and \$507,054, respectively.

#### ***Investments***

Investments are carried at fair value based upon quoted market prices.

#### ***Equipment, Furniture, and Fixtures***

Equipment, furniture, and fixtures are capitalized at cost, when purchased. Depreciation is provided on a straight-line basis over estimated useful lives ranging from three to ten years.

Under the provisions of Statement of Position (SOP) 98-1 and the Emerging Issues Task Force (EITF) 00-2, the Foundation capitalizes costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and the Foundation's management has authorized further funding for the project, which it deems probable will be completed and used to perform the function intended. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software. Capitalization of such costs ceases no later than the point at which the project is substantially complete and ready for its intended purpose. The Foundation capitalized Web site development costs of \$72,579 and \$194,312 during the years ended December 31, 2008 and 2007, respectively.

#### ***Deferred Revenues***

Deferred revenues consist of payments received in advance for the purchase of tickets to the Foundation's 2009 gala.

#### ***Functional Allocation of Expenses***

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services areas that were benefited.

## NATIONAL ACADEMY FOUNDATION

Notes to Financial Statements

December 31, 2008 and 2007

### ***Financial Instruments***

The estimated fair value amounts for specific groups of financial instruments are presented within the footnotes applicable to such items. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the related book value.

### ***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

### ***New Accounting Pronouncements***

#### ***Adoption of Statement of Financial Accounting Standards (SFAS 157), Fair Value Measurements***

Effective January 1, 2008, the Foundation adopted SFAS 157. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This pronouncement does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-2, *Effective Date of FASB Statement No. 157*, which defers the effective date of SFAS 157 for one year for nonfinancial assets and nonfinancial liabilities that are not disclosed at fair value in the financial statements on a recurring basis. The FSP did not defer the recognition and disclosure requirements for financial or nonfinancial assets and liabilities that are measured at least annually. In February 2008, the Foundation adopted FSP No. FAS 157-2. In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*. FSP No. FAS 157-3 was effective upon issuance, and applies to periods for which financial statements have not been issued. The FSP's guidance clarifies various application issues with respect to the objective of a fair value measurement, distressed transactions, relevance of observable data, and the use of management's assumptions. The effect of the adoption of SFAS 157, FAS 152-2 and FAS 157-3 did not have a material effect on the changes in net assets or financial position of the Foundation.

On April 9, 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FSP FAS 157-4 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for reporting periods ending after June 15, 2009, and is applied prospectively. Early adoption is not permitted for periods ending before March 15, 2009. The Foundation does not expect the provisions of FSP FAS 157-4 to have a material effect on its financial statements.

**NATIONAL ACADEMY FOUNDATION**

Notes to Financial Statements

December 31, 2008 and 2007

***Adoption of Financial Accounting Standards Board Staff Position No. FAS 117-1, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act [UPMIFA] and Enhanced Disclosures for All Endowment Funds***

In August 2008, the FSP was issued, and its guidance is effective for fiscal years ending after December 15, 2008. The FSP provides guidance with respect to the accounting for donor-restricted endowment funds subject to UPMIFA. In addition, the FSP requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the FSP, the Foundation has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment fund is appropriate. The historic dollar value of contributions to the endowment includes corpus only and there are no accumulated earnings.

***Prospective Accounting Pronouncements***

In June 2006, FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an entity’s financial statements. FIN 48 requires entities to determine whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. FIN 48 is currently effective for the Foundation’s December 31, 2009 financial statements. The adoption of FIN 48 is not expected to have a significant impact on the Foundation’s financial statements.

**(3) Contributions and Grants Receivable**

Contributions and grants receivable consist of the following as of December 31:

	<b>2008</b>	<b>2007</b>
Amounts expected to be collected in:		
Less than one year	\$ 4,951,006	3,376,922
One to five years	2,064,485	4,182,373
	7,015,491	7,559,295
Less discount to present value at rates ranging from 2% to 6%	(106,322)	(321,853)
	\$ 6,909,169	7,237,442

Included in contributions and grants receivable as of December 31, 2008 are gross pledges of approximately \$4,175,500 from two donors. Approximately 63% of contributions and grants revenue were generated from four top donors in 2008.

Included in contributions and grants receivable as of December 31, 2007 are gross pledges of approximately \$4,525,000 from one donor. Approximately 44% of contributions and grants revenue were generated from two top donors in 2007.

# NATIONAL ACADEMY FOUNDATION

## Notes to Financial Statements

December 31, 2008 and 2007

### (4) Investments

The fair value of investments consists of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Money market funds	\$ 1,847,146	2,152,801
Common stocks	374,096	1,843,065
U.S. government obligations	2,033,513	1,479,508
Asset-backed securities	2,704,669	1,906,461
Corporate bonds	1,499,876	1,506,199
Mutual funds	26,269	1,786,448
	<u>\$ 8,485,569</u>	<u>10,674,482</u>

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FAS 157 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 Quoted prices in active markets for identical assets or liabilities.
- Level 2 Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or inputs that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 Unobservable inputs supported by little or no market activity and that reflect the reporting entity's own assumptions about the exit price, including assumptions that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value estimates are made at a specific point in time, based on available market information and other observable inputs. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the ultimate settlement of the financial asset as these values do not represent any premium or discount that could result from selling an entire holding of a particular financial asset at one time. Other expenses that would be incurred in an actual sale or settlement are not included in the amounts disclosed.

**NATIONAL ACADEMY FOUNDATION**

Notes to Financial Statements

December 31, 2008 and 2007

The following table presents the Foundation's fair value hierarchy for those assets and liabilities measured at fair value as of December 31, 2008. At December 31, 2008, the Foundation had no Level 3 assets.

	<u>Fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Financial assets				
Investments:				
Money market funds	\$ 1,847,146	1,847,146	—	—
Common stocks	374,096	374,096	—	—
U.S. government obligations	2,033,513	2,033,513	—	—
Asset-backed securities	2,704,669	2,704,669	—	—
Corporate bonds	1,499,876	—	1,499,876	—
Mutual funds	26,269	26,269	—	—
Total	<u>\$ 8,485,569</u>	<u>6,985,693</u>	<u>1,499,876</u>	<u>—</u>

**(5) Equipment, Furniture, and Fixtures**

Equipment, furniture, and fixtures consist of the following as of December 31:

	<u>2008</u>	<u>2007</u>
Office equipment	\$ 349,571	416,384
Furniture and fixtures	104,618	101,593
Leased equipment	82,560	82,560
Software development costs	801,781	871,020
	<u>1,338,530</u>	<u>1,471,557</u>
Less accumulated depreciation	<u>(932,355)</u>	<u>(972,750)</u>
	<u>\$ 406,175</u>	<u>498,807</u>

**(6) Amounts Held for Others**

Amounts held for others consist of funds held by the Foundation for several academies that are available to pay for related activities.

**NATIONAL ACADEMY FOUNDATION**

Notes to Financial Statements

December 31, 2008 and 2007

**(7) Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes and time restrictions as of December 31:

	<b>2008</b>	<b>2007</b>
Student scholarship and teacher awards:		
Aldo Papone Endowment	\$ —	277,211
Jesse Blackman Endowment	—	12,792
New Orleans initiative	17,812	226,971
Research	250,000	250,000
Small schools initiative	1,335,310	882,750
California expansion	1,814,830	129,446
Academy of Engineering	2,945,734	4,705,928
Capacity building	2,573,260	3,988,911
Other time and purpose restrictions	1,377,578	1,153,485
Total	\$ 10,314,524	11,627,494

**(8) Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31 comprised the endowments presented below and consist of investments held in perpetuity. Income from these endowments is expendable to support student scholarship and academy awards.

	<b>2008</b>	<b>2007</b>
Aldo Papone Endowment	\$ 500,000	500,000
Jesse Blackman Endowment	30,000	30,000
Total	\$ 530,000	530,000

The Aldo Papone Endowment was established by the American Express Company in 1991 to provide funds for grant awards to outstanding U.S. academy programs. On an annual basis, a maximum of 7% of the Aldo Papone Endowment's assets is available for disbursement.

The Jesse Blackman Endowment was established in 1994 with a contribution from the American Express Company. The purpose of the Jesse Blackman Endowment is to provide funds for a scholarship to an outstanding student in the Hospitality and Tourism program. Presently, the annual scholarship limit is \$1,500.

**NATIONAL ACADEMY FOUNDATION**

Notes to Financial Statements

December 31, 2008 and 2007

**(9) Pension Plans**

The Foundation has a defined contribution pension plan covering all eligible employees. The plan qualifies as a 401(k) pension plan under the Code. The Foundation funds the plan on a monthly basis and contributes up to 11% of employees' compensation up to the Social Security wage base. The Foundation contributes 5% in years one and two, 8% in years three and four, and 11% in year five and thereafter. Compensation paid above the Social Security wage base ceiling is funded by an additional 2%. The Foundation also has a 403(b) thrift plan under the Code. Employees are permitted to make voluntary contributions to the plan, and the Foundation matches the employees' contribution at the rate of 50% up to 6% of the employees' compensation. The expense under these plans for the years ended December 31, 2008 and 2007 was \$272,574 and \$261,999, respectively.

During 2007, the Foundation adopted a 457 Deferred Compensation Plan (the 457 Plan) for a senior member of management. The 457 Plan is a nonqualified deferred compensation plan subject to the provisions of the Internal Revenue Code Section 457. Expenses under this plan were \$18,696 and \$16,019 for the years ended December 31, 2008 and 2007, respectively. The assets and liabilities of this plan amounted to \$27,313 and \$13,396 for 2008 and 2007, respectively, and are included in other receivables and accounts payable in the accompanying balance sheets.

**(10) Lease Commitments**

The Foundation has a 10-year noncancelable operating lease for office space expiring June 30, 2009. At December 31, 2008, future minimum lease payments are as follows:

	<u>Amount</u>
Year ending December 31:	
2009	\$ <u>176,430</u>
	\$ <u><u>176,430</u></u>

Rent expense for the years ended December 31, 2008 and 2007 was \$458,144 and \$383,341, respectively.

**(11) Subsequent Event**

During June 2009, the Foundation entered into a new 10-year and five-month noncancelable operating lease for office space, which begins August 1, 2009 and expires September 30, 2019.

## NATIONAL ACADEMY FOUNDATION

Statement of Functional Expenses

Year ended December 31, 2008

	Program services				Total	Supporting services			Total expenses
	Academy of Hospitality and Tourism	Academy of Finance	Academy of Information Technology	Academy of Engineering		Management and general	Fund-raising	Total	
Salaries and related expenses	\$ 453,068	1,121,883	582,516	144,256	2,301,723	674,260	854,790	1,529,050	3,830,773
Staff travel	233,172	577,378	299,793	194,073	1,304,416	63,637	105,889	169,526	1,473,942
Curriculum	223,804	554,182	287,748	466,604	1,532,338	—	—	—	1,532,338
Consulting and professional fees	405,378	1,003,793	521,200	394,401	2,324,772	536,668	522,467	1,059,135	3,383,907
Rent and occupancy	72,158	178,676	92,774	—	343,608	45,814	68,722	114,536	458,144
Scholarships and grants	16,976	42,037	21,827	—	80,840	—	—	—	80,840
Program grants	117,178	290,156	150,658	132,996	690,988	—	—	—	690,988
Conference	131,910	326,634	169,599	81,813	709,956	7,494	1,294	8,788	718,744
Other expenses	—	—	—	231,824	231,824	67,643	86,277	153,920	385,744
Depreciation	36,064	89,302	46,368	42,909	214,643	26,639	42,929	69,568	284,211
Total functional expenses	\$ 1,689,708	4,184,041	2,172,483	1,688,876	9,735,108	1,422,155	1,682,368	3,104,523	12,839,631

See accompanying independent auditors' report.