NATIONAL ACADEMY FOUNDATION

Financial Statements and Schedule

December 31, 2009 and 2008

(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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 is presented for purposes of additional analysis and is not a required part of the 2009 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the 2009 basic financial statements taken as a whole.

KPMG LLP

September 14, 2010

NATIONAL ACADEMY FOUNDATION

Balance Sheets

December 31, 2009 and 2008

Assets		**2009**	**2008**
Cash and cash equivalents	$	1,160,262	1,732,331
Contributions and grants receivable, net (note 3)		3,182,915	6,909,169
Other receivables, net of allowance of $22,895 in 2009 and $237,913 in 2008 (note 9)		271,539	326,131
Prepaid expenses and other assets		242,360	216,769
Investments (note 4)		8,953,539	8,485,569
Equipment, furniture, and fixtures, net (note 5)		508,682	406,175
Total assets	$	14,319,297	18,076,144
Liabilities and Net Assets			
Liabilities:			
Accounts payable and accrued expenses (note 9)	$	1,482,595	960,070
Deferred revenues		25,000	604,943
Amounts held for others (note 6)		21,085	28,258
Total liabilities		1,528,680	1,593,271
Net assets:			
Unrestricted		6,112,762	5,638,349
Temporarily restricted (note 7)		6,147,855	10,314,524
Permanently restricted (note 8)		530,000	530,000
Total net assets		12,790,617	16,482,873
Total liabilities and net assets	$	14,319,297	18,076,144

See accompanying notes to financial statements.

NATIONAL ACADEMY FOUNDATION

Statements of Activities

Years ended December 31, 2009 and 2008

		2009	2008
Changes in unrestricted net assets:			
Support and revenue:			
Contributions and grants	$	2,269,659	1,550,075
Membership fees		936,150	920,095
Registration fees		370,082	619,224
Special event (net of direct donor benefits of $608,845 in 2009)		2,212,664	—
Interest and dividends, net		424,588	452,199
Net realized and unrealized loss on investments		(23,765)	(1,162,065)
Contract revenue		270,000	200,000
Other income		164,413	48,360
Net assets released from restrictions		8,313,159	9,304,479
Total unrestricted support and revenue		14,936,950	11,932,367
Expenses:			
Program services		10,577,360	9,735,108
Supporting services:			
Management and general		2,945,678	1,422,155
Fund-raising		939,499	1,682,368
Total supporting services		3,885,177	3,104,523
Total expenses		14,462,537	12,839,631
Increase (decrease) in unrestricted net assets		474,413	(907,264)
Changes in temporarily restricted net assets:			
Contributions		4,037,752	8,195,657
Interest and dividends		16,941	36,942
Net realized and unrealized gain (loss) on investments		91,797	(241,090)
Net assets released from restrictions		(8,313,159)	(9,304,479)
Decrease in temporarily restricted net assets		(4,166,669)	(1,312,970)
Decrease in net assets		(3,692,256)	(2,220,234)
Net assets at beginning of year		16,482,873	18,703,107
Net assets at end of year	$	12,790,617	16,482,873

See accompanying notes to financial statements.

NATIONAL ACADEMY FOUNDATION

Statements of Cash Flows

Years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (3,692,256)	(2,220,234)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	271,039	284,211
Net realized and unrealized (gain) loss on investments	(68,032)	1,403,155
Loss on disposal of fixed assets	11,699	1,981
Recovery of bad debt expense	(123,655)	—
Changes in assets and liabilities:		
Decrease in contributions and grants receivable	3,726,254	328,273
Decrease in other receivables	178,247	301,053
Decrease (increase) in prepaid expenses and other assets	(25,591)	(109,512)
Increase in accounts payable and accrued expenses	522,525	60,995
(Decrease) increase in deferred revenues	(579,943)	596,600
Decrease in amounts held for others	(7,173)	(13,443)
Net cash provided by operating activities	213,114	633,079
Cash flows from investing activities:		
Purchase of fixed assets	(385,245)	(193,560)
Purchase of investments	(4,378,938)	(3,677,926)
Proceeds from sale of investments	3,979,000	4,463,684
Net cash (used in) provided by investing activities	(785,183)	592,198
Net (decrease) increase in cash and cash equivalents	(572,069)	1,225,277
Cash and cash equivalents at beginning of year	1,732,331	507,054
Cash and cash equivalents at end of year	$ 1,160,262	1,732,331

See accompanying notes to financial statements.

(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-adjusted 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.

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During 2009 and 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 $858,580 and $1,205,000 for the years ended December 31, 2009 and 2008, respectively. Such donated services have been reflected in the accompanying statements 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. 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.

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. Website costs are capitalized when the project is substantially complete and ready for their intended purpose. Depreciation is provided on a straight-line basis over estimated useful lives ranging from 3 to 10 years.

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.

Financial Instruments

The estimated fair value amounts for specific groups of financial instruments are presented within the notes 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.

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Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

New Accounting Pronouncements

Accounting Standards Codification No. 820-10, Fair Value Measurements and Disclosures

The Foundation adopted Financial Accounting Standards Board (FASB) Staff Position No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Has Significantly Decreased and Identifying Transactions That Are Not Orderly*, in 2009, now included in Accounting Standards Codification (ASC) Subtopic 820-10 (ASC 820-10). ASC 820-10 requires additional disclosures including the inputs and valuation techniques used to measure fair value and a change from disclosing securities by major category to disclosing securities by major security type based upon the nature and risk of the security.

Accounting Standards Update No. 2009-12

The Foundation adopted Accounting Standards Update (ASU) No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, with respect to investments within its scope. This guidance amends ASC 820-10 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. In addition, classification of these investments within the fair value hierarchy is based on the Foundation's ability to timely redeem its interest rather than on valuation inputs.

Accounting Standards Update No. 2009-06

The Foundation adopted ASU No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, in conjunction with its adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (now included in ASC Subtopic 740-10). The Foundation recognizes the effects of income tax positions only if those positions are more likely than not of being sustained. There was no significant impact to the Foundation's financial statements as a result of the adoption of FASB Interpretation No. 48 or ASU No. 2009-06.

ASC 855-10, Subsequent Events

Effective December 31, 2009, the Foundation adopted Statement of Financial Accounting Standards 165, *Subsequent Events*, now included in ASC 855-10, *Subsequent Events*. ASC 855-10 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles.

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(3) Contributions and Grants Receivable

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

		2009	2008
Amounts expected to be collected in:			
Less than one year	$	2,389,485	4,951,006
One to five years		850,000	2,064,485
		3,239,485	7,015,491
Less discount to present value at rates ranging from 4.70% to 9.75%		(56,570)	(106,322)
	$	3,182,915	6,909,169

(4) Investments

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

		2009	2008
Money market funds	$	1,203,784	1,847,146
U.S. common stocks		471,899	374,096
U.S. government obligations		2,464,181	2,033,513
Asset-backed securities		1,949,141	2,704,669
Corporate bonds		2,836,422	1,499,876
Mutual funds		28,112	26,269
	$	8,953,539	8,485,569

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. ASC 820-10 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.

The following table presents the Foundation's fair value hierarchy for those assets measured at fair value as of December 31, 2009. At December 31, 2009, the Foundation had no Level 3 assets.

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Money market funds	$ 1,203,784	1,203,784	—	—
U.S. common stocks	471,899	471,899	—	—
U.S. government obligations	2,464,181	2,464,181	—	—
Asset-backed securities	1,949,141	—	1,949,141	—
Corporate bonds	2,836,422	2,836,422	—	—
Mutual funds	28,112	28,112	—	—
Total	$ 8,953,539	7,004,398	1,949,141	—

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

	Fair value	Level 1	Level 2	Level 3
Financial assets:				
Investments:				
Money market funds	$ 1,847,146	1,847,146	—	—
U.S. 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	$ 8,485,569	5,780,900	2,704,669	—

(Continued)

(5) Equipment, Furniture, and Fixtures

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

		2009	2008
Office equipment	$	396,344	349,571
Furniture and fixtures		203,300	104,618
Leasehold improvements		122,668	—
Leased equipment		82,560	82,560
Data center and website development costs		814,284	801,781
		1,619,156	1,338,530
Less accumulated depreciation		(1,110,474)	(932,355)
	$	508,682	406,175

(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.

(7) Temporarily Restricted Net Assets

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

		2009	2008
Student scholarship and teacher awards:			
Aldo Papone Endowment	$	74,371	—
Jesse Blackman Endowment		3,789	—
New Orleans initiative		—	17,812
Research		59,577	250,000
Small schools initiative		1,155,708	1,335,310
California expansion		868,634	1,814,830
Academy of Engineering		1,503,318	2,945,734
Curriculum		87,500	—
Capacity building		979,239	2,573,260
Time restricted for operating purposes		1,027,278	1,275,471
Other time and purpose restrictions		388,441	102,107
Total	$	6,147,855	10,314,524

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(8) Permanently Restricted Net Assets

Permanently restricted net assets as of December 31 was comprised of the endowment funds presented below and consist of investments held in perpetuity. Endowment assets are invested in a manner that is intended to earn a rate of return in excess of inflation and provide for the spending policies of the funds. Accumulated gains on investments are reported as temporarily restricted net assets.

		2009	2008
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 for academy awards and grants. The Foundation disbursed $20,000 during 2009.

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. The Foundation did not disburse funds during 2009.

From time to time, the fair value of assets associated with endowment funds may fall below the historic dollar value. These deficiencies are reported in unrestricted net assets. There were no such deficiencies at December 31, 2009.

(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, 2009 and 2008 was $366,691 and $272,574, 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 Code Section 457. One employee was added to the 457 Plan during 2009. Expenses under this plan were $17,149 and $18,696 for the years ended December 31, 2009 and 2008, respectively.

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(10) Lease Commitments

The Foundation has a 10-year 5-month lease noncancelable operating lease for office space, which began on August 1, 2009 and expires December 31, 2019. At December 31, 2009, future minimum lease payments were as follows:

Year ending December 31:		**Amount**
2010	$	328,016
2011		279,973
2012		346,305
2013		355,828
2014		377,114
Thereafter		2,132,000
	$	3,819,236

The Foundation also has a lease for office space, which is automatically renewed on a month-to-month basis set to expire October 31, 2010. Rent expense for both leases for the years ended December 31, 2009 and 2008 was $502,534 and $413,433, respectively.

(11) Subsequent Events

The Foundation has evaluated the potential for subsequent events through the date of issuance of the financial statements on September 14, 2010. There were no subsequent events that required disclosure in or changes to the Foundation’s financial statements.

NATIONAL ACADEMY FOUNDATION

Schedule of Functional Expenses

Year ended December 31, 2009

	Total program services	Supporting services: Management and general	Supporting services: Fund-raising	Supporting services: Total supporting services	Total expenses
Salaries and related expenses	$ 2,318,765	1,590,947	668,167	2,259,114	4,577,879
Staff travel	462,038	161,214	11,079	172,293	634,331
Curriculum	2,490,866	—	—	—	2,490,866
Consulting and professional fees	2,703,349	343,568	61,425	404,993	3,108,342
Rent and occupancy	375,772	88,417	88,416	176,833	552,605
Scholarships and grants	65,000	—	—	—	65,000
Program grants	877,044	—	—	—	877,044
Conference	943,525	18,954	—	18,954	962,479
Other expenses	337,868	519,320	65,764	585,084	922,952
Depreciation	3,133	223,258	44,648	267,906	271,039
Total functional expenses	$ 10,577,360	2,945,678	939,499	3,885,177	14,462,537

See accompanying independent auditors' report.