

BUILDING WITH BOOKS, INC.

Financial Statements

December 31, 2007 and 2006

(With Independent Auditors' Report Thereon)

15726STM

Independent Auditors' Report

Board of Directors
Building With Books, Inc.:

We have audited the accompanying statements of financial position of Building With Books, Inc. as of December 31, 2007 and 2006 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Building With Books, Inc.'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 Building With Books, Inc.'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 Building With Books, Inc. as of December 31, 2007 and 2006, 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.

KPMG LLP

Stamford, Connecticut
June 17, 2008

BUILDING WITH BOOKS, INC.

Statements of Financial Position

December 31, 2007 and 2006

| Assets | 2007 | 2006 |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 1,479,037 | 2,613,841 |
| Investments (note 3) | 3,876,857 | 2,035,822 |
| Contributions receivable, net (note 4) | 358,020 | 454,344 |
| Other current assets | 6,631 | 4,402 |
| Prepaid expenses | 43,869 | 49,966 |
| Equipment, net of accumulated depreciation of \$15,600 in 2007 and \$3,539 in 2006 (note 5) | 58,495 | 28,897 |
| Total assets | \$ <u>5,822,909</u> | <u>5,187,272</u> |
| Liabilities and Net Assets | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ <u>109,905</u> | <u>75,908</u> |
| Net assets – unrestricted: | | |
| Undesignated | 1,836,147 | 3,075,542 |
| Board designated endowment | 3,876,857 | 2,035,822 |
| Total unrestricted net assets | <u>5,713,004</u> | <u>5,111,364</u> |
| Total liabilities and net assets | \$ <u>5,822,909</u> | <u>5,187,272</u> |

See accompanying notes to financial statements.

BUILDING WITH BOOKS, INC.

Statements of Activities

Years ended December 31, 2007 and 2006

| | 2007 | | | 2006 | | |
|--|--------------|------------------------|-----------|--------------|------------------------|-----------|
| | Unrestricted | Temporarily restricted | Total | Unrestricted | Temporarily restricted | Total |
| Operating revenue: | | | | | | |
| In kind donations (note 2) | \$ 542,747 | — | 542,747 | 300,911 | — | 300,911 |
| Special events net of direct donor benefits of \$202,533 in 2007 and \$187,448 in 2006 | 1,242,363 | — | 1,242,363 | 1,110,482 | — | 1,110,482 |
| Foundation and corporate contributions | 1,585,976 | — | 1,585,976 | 2,251,697 | — | 2,251,697 |
| Government contributions | 280,000 | — | 280,000 | 250,000 | — | 250,000 |
| Contributed labor associated with site development (note 2) | 245,000 | — | 245,000 | 190,000 | — | 190,000 |
| Individual contributions | 1,640,644 | 75,985 | 1,716,629 | 902,454 | 90,675 | 993,129 |
| Provision for uncollectible receivables | (28,000) | — | (28,000) | — | — | — |
| Investment and other income (note 3) | 433,230 | — | 433,230 | 212,676 | — | 212,676 |
| Net assets released from restrictions | 75,985 | (75,985) | — | 90,675 | (90,675) | — |
| Total operating revenue | 6,017,945 | — | 6,017,945 | 5,308,895 | — | 5,308,895 |
| Operating expenses: | | | | | | |
| Program services (note 2): | | | | | | |
| Construction, including donated goods and services of \$39,706 in 2007 and \$17,133 in 2006 | 1,711,230 | — | 1,711,230 | 989,103 | — | 989,103 |
| Contributions of labor associated with site development to local communities | 245,000 | — | 245,000 | 190,000 | — | 190,000 |
| Cultural education, including donated goods and services of \$272,300 in 2007 and \$183,718 in 2006 | 2,652,513 | — | 2,652,513 | 2,076,916 | — | 2,076,916 |
| International education, including donated goods and services of \$0 in 2007 and \$797 in 2006 | 54,183 | — | 54,183 | 54,717 | — | 54,717 |
| Total program services | 4,662,926 | — | 4,662,926 | 3,310,736 | — | 3,310,736 |
| Supporting services (note 2): | | | | | | |
| Fundraising, including donated goods and services of \$123,934 in 2007 and \$11,826 in 2006 | 457,225 | — | 457,225 | 305,430 | — | 305,430 |
| Management and general, including donated goods and services of \$106,807 in 2007 and \$87,438 in 2006 | 253,395 | — | 253,395 | 213,890 | — | 213,890 |
| Total supporting services | 710,620 | — | 710,620 | 519,320 | — | 519,320 |
| Total operating expenses | 5,373,546 | — | 5,373,546 | 3,830,056 | — | 3,830,056 |
| Increase in net assets from operations | 644,399 | — | 644,399 | 1,478,839 | — | 1,478,839 |
| Nonoperating revenue: | | | | | | |
| Net (depreciation) appreciation in fair value of investments (note 3) | (42,759) | — | (42,759) | 70,393 | — | 70,393 |
| Increase in net assets | 601,640 | — | 601,640 | 1,549,232 | — | 1,549,232 |
| Net assets, beginning of year | 5,111,364 | — | 5,111,364 | 3,562,132 | — | 3,562,132 |
| Net assets, end of year | \$ 5,713,004 | — | 5,713,004 | 5,111,364 | — | 5,111,364 |

See accompanying notes to financial statements.

BUILDING WITH BOOKS INC.

Statement of Cash Flows

Years ended December 31, 2007 and 2006

| | <u>2007</u> | <u>2006</u> |
|--|---------------------|------------------|
| Cash flow from operating activities: | | |
| Increase in net assets | \$ 601,640 | 1,549,232 |
| Adjustment to reconcile increase in net assets to net cash provided by operating activities: | | |
| Depreciation | 12,061 | 3,539 |
| Contributions of investments | (17,287) | (51,679) |
| Net depreciation (appreciation) in fair value of investments | 42,759 | (70,393) |
| Changes in assets and liabilities: | | |
| Contributions receivable | 96,324 | 16,822 |
| Prepaid expenses and other assets | 6,097 | 9,505 |
| Accounts payable and accrued expenses | 33,997 | (45,437) |
| Other current assets | (2,229) | (4,402) |
| Net cash provided by operating activities | <u>773,362</u> | <u>1,407,187</u> |
| Cash flows from investing activities: | | |
| Purchase of investments | (1,883,988) | (669,091) |
| Proceeds from sale of investments | 17,481 | 55,024 |
| Purchase of fixed assets | (41,659) | (32,436) |
| Net cash used in investing activities | <u>(1,908,166)</u> | <u>(646,503)</u> |
| Increase (decrease) in cash and cash equivalents | (1,134,804) | 760,684 |
| Cash and cash equivalents, beginning of the year | <u>2,613,841</u> | <u>1,853,157</u> |
| Cash and cash equivalents, end of the year | <u>\$ 1,479,037</u> | <u>2,613,841</u> |

See accompanying notes to the financial statements.

BUILDING WITH BOOKS, INC.

Notes to Financial Statements

December 31, 2007 and 2006

(1) Summary of Accounting Policies

(a) Organization

Building With Books, Inc. (the Organization), headquartered in Stamford, Connecticut, is a not-for-profit corporation exempt from taxation under Internal Revenue Code Section 501(c)(3). The Organization was established in 1991 with a defined mission to enhance education and empower youth in the U.S. to make a positive difference in their communities while helping people of developing countries increase their self-reliance through education.

In line with this mission, the Organization engages primarily urban youth through after-school programs and in their classrooms. The Organization integrates global education presentations into social studies classes, and through its after-school programs students contribute intensive community service while helping to build schools in developing countries around the world.

Over the past twelve years the Organization has constructed and completed 239 schools, forty five of which were completed during 2007, in the following locations: Mali (105), Nepal (60), Nicaragua (31), Malawi (21), Bolivia (8), Haiti (8), India (3), Brazil (2), and the United States (1). The majority of the Organization's revenues are generated by donations, both individual and corporate, which are used to aid in the construction of schoolhouses in remote villages around the world. Ownership of the schools is transferred to the local communities in which they are built upon the completion of construction.

Building with Books receives donations from a diverse group of supporters, including individuals, corporations and foundations.

(b) Basis of Financial Statements

The accompanying financial statements are prepared on the accrual basis of accounting.

The net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – These net assets represent resources over which the board of directors has discretionary control to use for operations, or which have been designated to function as endowment. Such amounts are not subject to donor-imposed restriction.

Temporarily restricted net assets – Net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or when the stipulations have been fulfilled. When donor-imposed restrictions expire, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(c) Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the statements of activities as revenues in the period in which they are received. Additionally, the Organization recognizes revenues and expenses associated with donated goods and services, which are discussed further in note 2.

BUILDING WITH BOOKS, INC.

Notes to Financial Statements

December 31, 2007 and 2006

(d) *Cash and Cash Equivalents*

Cash and cash equivalents consist of amounts held in various bank accounts and short-term securities with original maturities of less than three months.

(e) *Investments*

Investments are reported at fair value, based on quoted market prices.

(f) *Equipment and Depreciation*

Equipment is stated at cost or, for donated equipment, fair value at the date of the gift, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets, which range from two to seven years.

(g) *Use of Estimates*

The preparation of the 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 the 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.

(h) *Functional Allocation of Expenses*

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

(i) *Tax Exempt Status*

The organization is exempt from Federal income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code.

(2) *Donated Goods and Services*

A substantial number of volunteers have made significant contributions of their time to develop the Organization's programs, primarily in the areas of construction and cultural education. The value of this contributed time is not reflected in the financial statements since it does not meet the criteria for recognition.

Land contributed for site development is subsequently contributed back to the local community in which the school is constructed. Accordingly, such amounts are excluded from both revenues and expenses, as land is merely administered by the Organization to construct the school. Labor associated with site development (including school construction), however, is recognized in the statements of activities as revenue in the period received. Contributed labor was \$245,000 and \$190,000 for 2007 and 2006, respectively, and is included as both operating revenue and operating expenses within the statements of activities.

BUILDING WITH BOOKS, INC.

Notes to Financial Statements

December 31, 2007 and 2006

The Organization occupies donated office space and facilities valued at \$401,530 and \$229,697, for 2007 and 2006, respectively. These donations have been reported in operating revenue as in-kind donations and in operating expenses as donated goods and services, and are allocated to the program and supporting services benefited. The Organization also received \$141,217 and \$71,214 for 2007 and 2006, respectively, in donated accounting services, airfare, printing and other goods and services. These contributions have similarly been reported as in-kind donations and included in operating expenses as donated goods and services.

(3) Investments

The following summarizes the Organization's investments held at December 31:

| | 2007 | | 2006 | |
|-------------------|--------------|------------|-----------|------------|
| | Cost | Fair value | Cost | Fair value |
| Equity securities | \$ 3,729,640 | 3,876,857 | 1,845,655 | 2,035,822 |

The investments consist of various securities and mutual funds. The Organization's net appreciation in fair value of investments, which consisted of net realized gains of \$191 in 2007 and \$3,351 in 2006 and net unrealized (losses) gains of \$(42,950) in 2007 and \$67,042 in 2006 is reported as nonoperating revenue within the statements of activities. Dividends on investments were \$383,988 and \$169,091 for 2007 and 2006, respectively, and are included in investment and other income within the statements of activities.

(4) Contributions Receivable

At December 31, 2007 and 2006, contributions receivable, which consist of unconditional promises (pledges) to give cash or other assets, are expected to be collected within the next fiscal year, net of an allowance for uncollectible receivables of \$28,000 at December 31, 2007.

(5) Equipment

The Organization's fixed assets at December 31, 2007 and 2006 are summarized as follows:

| | 2007 | 2006 |
|--|-----------|---------|
| Equipment at cost | \$ 74,095 | 32,436 |
| Less accumulated depreciation | (15,600) | (3,539) |
| Equipment, net of accumulated depreciation | \$ 58,495 | 28,897 |