

BUILDING WITH BOOKS, INC.

Financial Statements

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Stamford Square
3001 Summer Street
Stamford, CT 06905

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, 2006 and 2005 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, 2006 and 2005, 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

August 24, 2007

BUILDING WITH BOOKS, INC.

Statements of Financial Position

December 31, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 2,613,841	1,853,157
Investments (note 3)	2,035,822	1,299,683
Contributions receivable (note 4)	454,344	471,166
Other Current Assets	4,402	—
Prepaid expenses	49,966	59,471
Equipment, net of accumulated depreciation of \$79,245 in 2006 and \$75,706 in 2005 (note 5)	28,897	—
Total assets	<u>\$ 5,187,272</u>	<u>3,683,477</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 75,908	121,345
Net assets – unrestricted:		
Undesignated	3,075,542	2,262,449
Board Designated Endowment	2,035,822	1,299,683
Total unrestricted net assets	<u>\$ 5,111,364</u>	<u>3,562,132</u>
Total liabilities and net assets	<u>\$ 5,187,272</u>	<u>3,683,477</u>

See accompanying notes to financial statements.

BUILDING WITH BOOKS, INC.

Statements of Activities

Years ended December 31, 2006 and 2005

	2006			2005		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Operating revenue:						
In kind donations (note 2)	\$ 300,911		300,911	284,370		284,370
Special events net of direct donor benefits of \$187,448 in 2006 and \$187,508 in 2005	1,110,482		1,110,482	1,028,812		1,028,812
Foundation and corporate contributions	2,251,697		2,251,697	1,264,055		1,264,055
Government contributions	250,000		250,000	—		—
Contributed labor associated with site development (note 2)	190,000		190,000	155,000		155,000
Individual contributions	902,454	90,675	993,129	901,220	97,723	998,943
Investment and other income	212,676		212,676	89,922		89,922
Net assets released from restrictions	90,675	(90,675)	—	97,723	(97,723)	—
Total operating revenue	5,308,895	—	5,308,895	3,821,102	—	3,821,102
Operating expenses:						
Program services (note 2):						
Construction, including donated goods and services of \$17,133 in 2006 and \$7,243 in 2005	989,103		989,103	791,605		791,605
Contributions of labor associated with site development to local communities	190,000		190,000	155,000		155,000
Cultural education, including donated goods and services of \$183,718 in 2006 and \$119,023 in 2005	2,076,916		2,076,916	1,709,378		1,709,378
International education, including donated goods and services of \$797 in 2006 and \$3,800 in 2005	54,717		54,717	79,279		79,279
Total program services	3,310,736	—	3,310,736	2,735,262	—	2,735,262
Supporting services (note 2):						
Fundraising, including donated goods and services of \$11,826 in 2006 and \$46,934 in 2005	305,430		305,430	385,816		385,816
Management and general, including donated goods and services of \$87,438 in 2006 and \$107,370 in 2005	213,890		213,890	234,163		234,163
Total supporting services	519,320	—	519,320	619,979	—	619,979
Total operating expenses	3,830,056	—	3,830,056	3,355,241	—	3,355,241
Increase in net assets from operations	1,478,839	—	1,478,839	465,861	—	465,861
Non-operating revenue:						
Net appreciation in fair value of investments (note 3)	70,393		70,393	6,017		6,017
Increase in net assets	1,549,232	—	1,549,232	471,878	—	471,878
Net assets, beginning of year	3,562,132	—	3,562,132	3,090,254	—	3,090,254
Net assets, end of year	\$ 5,111,364	—	5,111,364	3,562,132	—	3,562,132

See accompanying notes to financial statements.

BUILDING WITH BOOKS, INC.

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flow from operating activities:		
Increase in net assets	\$ 1,549,232	471,878
Adjustment to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	3,539	—
Contributions of investments	(51,679)	(54,759)
Net appreciation in fair value of investments	(70,393)	(6,017)
Changes in assets and liabilities:		
Contributions receivable	16,822	(84,637)
Prepaid expenses and other assets	9,505	277,300
Accounts payable and accrued expenses	(45,437)	(1,330)
Other current assets	(4,402)	—
Net cash provided by operating activities	<u>1,407,187</u>	<u>602,435</u>
Cash flows from investing activities:		
Purchase of investments	(669,091)	(62,062)
Proceeds from sale of investments	55,024	55,473
Purchase of fixed assets	(32,436)	—
Net cash used in investment activities	<u>(646,503)</u>	<u>(6,589)</u>
Increase in cash and cash equivalents	760,684	595,846
Cash and cash equivalents, beginning of year	<u>1,853,157</u>	<u>1,257,311</u>
Cash and cash equivalents, end of year	<u>\$ 2,613,841</u>	<u>1,853,157</u>

See accompanying notes to financial statements.

BUILDING WITH BOOKS, INC.

Notes to Financial Statements

December 31, 2006 and 2005

(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 194 schools, forty eight of which were completed during 2006, in the following locations: Mali (84), Nepal (54), Nicaragua (25), Malawi (11), Bolivia (8), Haiti (6), 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.

The Organization receives donations from a diverse group of supporters, including individuals, corporations and foundations. 42% of the Organization's total revenue is provided by a few large corporate donors and their employees.

(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

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Notes to Financial Statements

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recognizes revenues and expenses associated with donated goods and services, which are discussed further in note 2.

(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 accounting principles generally accepted in the United States of America 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.

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Notes to Financial Statements

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(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 \$190,000 and \$155,000 for 2006 and 2005, respectively, and is included as both operating revenue and operating expenses within the statements of activities.

The Organization occupies donated office space and facilities valued at \$229,697 and \$201,422, for 2006 and 2005, 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 \$71,214 and \$82,948 for 2006 and 2005, 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:

	2006		2005	
	Cost	Fair value	Cost	Fair value
Equity securities	\$ 1,845,655	2,035,822	1,176,564	1,299,683

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 \$3,351 and \$714 and net unrealized gains of \$67,042 and \$5,303, is reported as non-operating revenue within the statements of activities for 2006 and 2005, respectively. Dividends on investments were \$169,091 and \$63,807 for 2006 and 2005, respectively, and are included in investment and other income within the statements of activities.

(4) Contributions Receivable

At December 31, 2006 and 2005, contributions receivable, which consist of unconditional promises (pledges) to give cash or other assets, are expected to be collected within the next fiscal year.

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Notes to Financial Statements

December 31, 2006 and 2005

(5) Equipment

The Organization's fixed assets at December 31, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Equipment at Cost	\$ 108,142	75,706
Less: Accumulated Depreciation	<u>(79,245)</u>	<u>(75,706)</u>
Equipment, Net of Accumulated Depreciation	<u>\$ 28,897</u>	<u>—</u>