

FINANCIAL STATEMENTS

EDUCATION SECTOR, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2007**

EDUCATION SECTOR, INC.

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Education Sector, Inc.
Washington, D.C.

We have audited the accompanying statement of financial position of the Education Sector, Inc. (Education Sector) as of December 31, 2008, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Education Sector's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Education Sector's financial statements for the year ended December 31, 2007 and, in our report dated September 8, 2008, we expressed an unqualified opinion on those statements.

We conducted our audit 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 the Education Sector as of December 31, 2008, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

July 30, 2009

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

EDUCATION SECTOR, INC.
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007

ASSETS		<u>2008</u>	<u>2007</u>
CURRENT ASSETS			
Cash and cash equivalents		\$ 2,703,442	\$ 2,547,872
Certificate of deposit (Note 7)		30,000	92,968
Grants receivable		285,000	342,000
Prepaid expenses and security deposits		<u>13,351</u>	<u>14,227</u>
Total current assets		<u>3,031,793</u>	<u>2,997,067</u>
FIXED ASSETS			
Equipment		35,446	35,446
Furniture and fixtures		55,873	55,873
Leasehold improvements		66,322	66,322
Software		<u>42,868</u>	<u>42,868</u>
		200,509	200,509
Less: Accumulated depreciation and amortization		<u>(116,051)</u>	<u>(72,355)</u>
Net fixed assets		<u>84,458</u>	<u>128,154</u>
TOTAL ASSETS		<u>\$ 3,116,251</u>	<u>\$ 3,125,221</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 17,475	\$ 14,409
Accrued salaries and related benefits		82,471	69,948
Deferred rent (Note 4)		<u>16,945</u>	<u>12,864</u>
Total current liabilities		<u>116,891</u>	<u>97,221</u>
NET ASSETS			
Unrestricted		1,509,007	626,323
Temporarily restricted (Note 2)		<u>1,490,353</u>	<u>2,401,677</u>
Total net assets		<u>2,999,360</u>	<u>3,028,000</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 3,116,251</u>	<u>\$ 3,125,221</u>

See accompanying notes to financial statements.

EDUCATION SECTOR, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007**

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Foundation grants	\$ 10,000	\$ 1,909,780	\$ 1,919,780	\$ 2,990,800
Research income	-	-	-	15,000
Interest/dividend income	66,535	-	66,535	50,811
Contributed services and materials	11,974	-	11,974	16,094
Other revenue	15,002	-	15,002	(194)
Net assets released from donor restrictions (Note 3)	2,821,104	(2,821,104)	-	-
Total revenue	2,924,615	(911,324)	2,013,291	3,072,511
EXPENSES (NOTE 8)				
Salaries	1,237,659	-	1,237,659	1,026,622
Benefits	49,736	-	49,736	39,946
Retirement plan contribution (Note 6)	35,466	-	35,466	30,006
Payroll taxes	78,145	-	78,145	67,961
Printing and production	19,971	-	19,971	12,022
Professional fees	205,570	-	205,570	263,846
Occupancy (Note 4)	166,994	-	166,994	162,349
Insurance	14,035	-	14,035	13,821
Depreciation and amortization	43,696	-	43,696	43,696
Telephone	21,548	-	21,548	21,369
Travel and entertainment	66,391	-	66,391	36,019
Postage and delivery	2,501	-	2,501	4,251
Supplies	5,314	-	5,314	5,419
Subscriptions and publications	16,794	-	16,794	10,078
Meetings and conventions	43,164	-	43,164	19,210
Advertising and promotion	2,974	-	2,974	1,634
Equipment	11,927	-	11,927	8,395
Other	15,691	-	15,691	8,859
Bank fees	4,355	-	4,355	1,937
Repairs and maintenance	-	-	-	1,200
Total expenses	2,041,931	-	2,041,931	1,778,640
Change in net assets	882,684	(911,324)	(28,640)	1,293,871
Net assets at beginning of year	626,323	2,401,677	3,028,000	1,734,129
NET ASSETS AT END OF YEAR	\$ 1,509,007	\$ 1,490,353	\$ 2,999,360	\$ 3,028,000

See accompanying notes to financial statements.

EDUCATION SECTOR, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2007**

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (28,640)	\$ 1,293,871
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	43,696	43,696
(Increase) decrease in:		
Grants receivable	57,000	100,808
Prepaid expenses and security deposits	876	(1,519)
Increase (decrease) in:		
Accounts payable and accrued liabilities	3,066	(42,844)
Accrued salaries and related benefits	12,523	8,326
Deferred rent	<u>4,081</u>	<u>7,937</u>
Net cash provided by operating activities	<u>92,602</u>	<u>1,410,275</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	-	(1,776)
Redemption of certificate of deposit	<u>62,968</u>	<u>7</u>
Net cash provided (used) by investing activities	<u>62,968</u>	<u>(1,769)</u>
Net increase in cash and cash equivalents	155,570	1,408,506
Cash and cash equivalents at beginning of year	<u>2,547,872</u>	<u>1,139,366</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,703,442</u>	<u>\$ 2,547,872</u>

See accompanying notes to financial statements.

EDUCATION SECTOR, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Education Sector, Inc. (Education Sector) is a nonprofit organization, incorporated in the State of Maryland and located in Washington, D.C. The Education Sector is an independent education think tank. The Education Sector is nonprofit and nonpartisan, both a dependable source of sound thinking on policy and an honest broker of evidence in key education debates. The Education Sector produces original research and policy analysis and promotes outstanding work by the nation's most respected education analysts.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Education Sector's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Cash and cash equivalents -

The Education Sector considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, the Education Sector maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Fixed assets -

Fixed assets are stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The Education Sector capitalizes all property and equipment with a cost of \$2,000 or more. The cost of maintenance and repairs is recorded as expenses are incurred.

Income taxes -

The Education Sector is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Education Sector is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature.

EDUCATION SECTOR, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions (continued) -

On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. As deferred by the guidance in FSP FIN 48-3, the Education Sector is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, the Education Sector has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, the Education Sector continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, *Accounting for Contingencies*. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, the Education Sector has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Education Sector and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Education Sector and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements. The Education Sector does not feel an allowance for uncollectible grants is necessary as of December 31, 2008.

Use of estimates -

The preparation of 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

EDUCATION SECTOR, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

In-kind contributions -

The Education Sector receives donated legal services that are recorded as in-kind contributions at their estimated fair value at the date of donation. The Education Sector had \$11,974 in donated legal services for the year ended December 31, 2008.

2. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2008:

Accountability	\$ 368,750
Teacher Quality	109,994
Undergrad Education	36,436
Time Restricted	833,333
Educational Choice	50,000
Student Loan Defaults	<u>91,840</u>
	<u>\$ 1,490,353</u>

3. **NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

Accountability	\$ 400,000
Teacher Quality	316,653
Undergrad Education	291,491
Time Restricted	1,790,000
Student Loan Defaults	<u>22,960</u>
	<u>\$2,821,104</u>

4. **LEASE COMMITMENT**

On July 1, 2006, the Education Sector entered into a non-cancelable operating lease for its office space that terminates on June 30, 2012. Under the terms of the lease, the base rent increases annually on an incremental basis as stated in the lease. Under accounting principles generally accepted in the United States of America (GAAP), all rental payments, including fixed rent increases, less any rental abatements, are recognized on a straight-line basis over the term of the lease. The difference between the GAAP rent expense and the required lease payments is reflected as deferred rent in the accompanying Statement of Financial Position.

EDUCATION SECTOR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

4. LEASE COMMITMENT (Continued)

The future minimum payments under this lease are as follows:

Year Ended December 31,

2009	\$ 162,211
2010	166,263
2011	170,424
2012	<u>86,268</u>
	<u>\$ 585,166</u>

Rent expense for the year ended December 31, 2008 was \$166,994.

5. EMPLOYMENT CONTRACTS

The Education Sector has entered into a six-month employment agreement with one of its Co-Directors. The agreement terminates on June 30, 2009 and calls for a fixed annual salary, retirement plan contributions and potential bonuses. Subsequent to year-end, the Education Sector entered into two employment contracts, effective March 1, 2009, for one year expiring February 28, 2010. The agreements call for fixed annual salaries and retirement plan contributions.

6. RETIREMENT PLAN

The Education Sector maintains a defined contribution plan under Section 401(k) of the Internal Revenue Code for employees who have attained certain age and length of service requirements. Under the terms of the plan, eligible employees may elect to contribute up to the Federal tax limitation annually.

The Education Sector makes contributions of three percent (3%) of the participant's compensation to the plan. Additionally, the Education Sector may elect to make additional discretionary contributions to the plan. During the year ended December 31, 2008, the Education Sector contributed \$35,466 to the plan.

7. LETTER OF CREDIT/CERTIFICATE OF DEPOSIT

The Education Sector has a \$30,000 restricted use letter of credit secured by a Certificate of Deposit for \$30,000 with PNC Bank. The terms of the office lease agreement stipulates that the Education Sector maintain this letter of credit in lieu of a security deposit. Only the landlord may draw on this letter of credit and only if the Education Sector is in default and has been notified. This may be reduced over the life of the lease when certain conditions are met. At December 31, 2008, the letter of credit had no balance outstanding. As the Certificate of Deposit is collateral for this letter of credit, it may not be drawn upon.

EDUCATION SECTOR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

8. FUNCTIONAL EXPENSES

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

The Education Sector's functional expenses were comprised of the following at December 31, 2008:

Program Services	\$ <u>1,689,323</u>
Supporting Services:	
Management and General	203,712
Fundraising	<u>148,896</u>
Total supporting services	<u>352,608</u>
TOTAL EXPENSES	\$ <u>2,041,931</u>