

INTERNATIONAL BOOK PROJECT, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2012

ENDERLE & COMPANY, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
International Book Project, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of International Book Project, Inc. (the Company), which comprise the statement of assets, liabilities, and net assets – modified cash basis of as of December 31, 2012 and the related statements of support, revenue, and expenses – modified cash basis and cash flows – modified cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note B; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of the Company as of December 31, 2012 and its support, revenue, and expenses and cash flows for the year then ended in accordance with the modified cash basis of accounting as described in Note B.

Basis of Accounting

We draw attention to Note B of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Enderle & Company

Lexington, Kentucky

July 1, 2013

INTERNATIONAL BOOK PROJECT, INC.
 STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - MODIFIED CASH BASIS
 DECEMBER 31, 2012

| | |
|--------------------------------|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | \$ 179,587 |
| Investment trust account | 552,741 |
| | TOTAL CURRENT ASSETS 732,328 |
| PROPERTY, PLANT, AND EQUIPMENT | |
| Building and improvements | 212,618 |
| Machinery and equipment | 67,300 |
| | 279,918 |
| Accumulated depreciation | (208,292) |
| | 71,626 |
| | TOTAL ASSETS \$ 803,954 |
| LIABILITIES AND NET ASSETS | |
| CURRENT LIABILITIES | |
| Payroll taxes payable | \$ 2,760 |
| | TOTAL LIABILITIES 2,760 |
| NET ASSETS | |
| Unrestricted | 801,194 |
| | TOTAL NET ASSETS 801,194 |
| | TOTAL LIABILITIES AND NET ASSETS \$ 803,954 |

See Independent Auditors' Report and Notes to Financial Statements.

INTERNATIONAL BOOK PROJECT, INC.
STATEMENT OF SUPPORT, REVENUE, AND EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| SUPPORT AND REVENUE | | | |
| General and shipping contributions | \$ 111,676 | \$ - | \$ 111,676 |
| Grants and capital projects | 251,060 | - | 251,060 |
| Fundraising event | 10,630 | - | 10,630 |
| Sales | 46,358 | - | 46,358 |
| Interest | 1,440 | - | 1,440 |
| Books as Bridges | 1,843 | - | 1,843 |
| Net assets released from restriction: | | | |
| Satisfaction of program restrictions | 28,744 | (28,744) | - |
| TOTAL SUPPORT AND REVENUE | <u>451,751</u> | <u>(28,744)</u> | <u>423,007</u> |
| INVESTMENT ACTIVITY | | | |
| Interest and dividends | 9,183 | - | 9,183 |
| Realized gains (losses) | 331 | - | 331 |
| Unrealized gains (losses) | 33,015 | - | 33,015 |
| TOTAL INVESTMENT ACTIVITY | <u>42,529</u> | <u>-</u> | <u>42,529</u> |
| EXPENSES | | | |
| Program services | 246,627 | - | 246,627 |
| Supporting services: | | | |
| Management and general administration | 32,132 | - | 32,132 |
| Fundraising | 37,331 | - | 37,331 |
| TOTAL EXPENSES | <u>316,090</u> | <u>-</u> | <u>316,090</u> |
| CHANGE IN NET ASSETS | <u>178,190</u> | <u>(28,744)</u> | <u>149,446</u> |
| NET ASSETS - BEGINNING OF YEAR | <u>623,004</u> | <u>28,744</u> | <u>651,748</u> |
| NET ASSETS - END OF YEAR | <u>\$ 801,194</u> | <u>\$ -</u> | <u>\$ 801,194</u> |

See Independent Auditors' Report and Notes to Financial Statements.

INTERNATIONAL BOOK PROJECT, INC.
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2012

| | |
|--|--|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in net assets | \$ 149,446 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | |
| Unrealized gain (loss) | (33,015) |
| Depreciation | 7,308 |
| Increase (decrease) in operating liabilities | |
| Payroll taxes | 943 |
| | 124,682 |
| | NET CASH PROVIDED BY OPERATING ACTIVITIES |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of investments | (109,514) |
| Purchase of equipment | (60,508) |
| | (170,022) |
| | NET CASH FLOWS FROM INVESTING ACTIVITIES |
| | NET CHANGE IN CASH FLOWS (45,340) |
| | CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 224,927 |
| | CASH AND CASH EQUIVALENTS - END OF YEAR \$ 179,587 |

SUPPLEMENTAL INFORMATION

| | |
|----------------------------|------|
| Cash paid for interest | \$ - |
| Cash paid for income taxes | \$ - |

See Independent Auditors' Report and Notes to Financial Statements.

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A - ORGANIZATION

International Book Project, Inc. (the Company) is a nonprofit organization whose purpose is to stimulate international communication and understanding and to broaden the education of people throughout the world through the distribution of literature. By providing needed quality books to the peoples of the developing world, the Company seeks to promote education and literacy in developing countries and in areas of need in the USA; to broaden Americans' understanding of their neighbors; and to foster global friendships and strengthen world unity.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting

These financial statements have been prepared on the modified cash basis of accounting. The Company maintains its accounting records on the basis of cash receipts and disbursements; consequently, certain revenue and related assets are recognized when paid rather than when the obligation is incurred. Also, book inventory is not recorded. The cash basis is modified to record property and equipment purchased as assets, record depreciation of capitalized assets and record liabilities arising from receipt of borrowed cash and for payroll holdings.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all cash in banks and certificates of deposit to be cash equivalents.

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of assets, liabilities, and net assets. Unrealized gains and losses are included in the change in net assets. Investment income and gains are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Income Taxes

The Company is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

The Company's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2010, 2011, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE B - SIGNIFICANT ACCOUNTING POLICIES - continued

Financial Statement Presentation

The Company is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted (net assets which cannot be spent due to donor-imposed permanent restrictions on the use of funds), temporarily restricted (net assets can be expended but only in accordance with donor-imposed restrictions), or unrestricted (net assets may be spent in accordance with management and Board wishes).

Donated Property and Services

Donated materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time in the fundraising campaigns and operations. There was no donated property during the year. Volunteer hours of 3,898 were documented and, for purposes of disclosure in the footnotes only, management determined that this approximated \$64,395 dollars of donated time. In addition, for purpose of disclosure in the footnotes only, management determined shipment values of assorted books of \$3,560,224 for 2012.

Fixed Assets

Property is stated at cost, if purchased, and at estimated fair value if donated. Depreciation expense of \$7,308 for 2012 has been computed by the straight-line method using the following asset lives:

| | |
|--------------------|------------|
| Buildings | 20 years |
| Equipment | 3-7 years |
| Building Additions | 7-10 years |

NOTE C - TRUST - BANK OF THE BLUEGRASS TRUSTEE

The Company maintains a trust portfolio held at Bank of the Bluegrass. The Trustee shall apply the net income from the trust to the Company's use as directed by the Company. The Trustee may apply to the use of the Company as much or all of the principal of this Trust as the Company may direct.

The Trustee shall have, with respect to any property at any time held by it, the power to invest and reinvest in any one or more of the Common Trust Funds managed by the named Trustee.

At December 31, 2012, the account has a cost balance of \$465,238 and market value of \$552,741. Total fees paid for the year ended December 31, 2012 were \$2,258.

The following schedule summarizes the investment return and its classification in the statement of support, revenue and expenses - modified cash basis for the year ended December 31, 2012:

| | |
|---------------------------|---------------------|
| Interest and Dividends | <u>Unrestricted</u> |
| Realized gains (losses) | \$ 9,183 |
| Unrealized gains (losses) | 331 |
| Total investment return | <u>33,015</u> |
| | <u>\$ 42,529</u> |

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE D – FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described below.

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following tables set forth by level, within the fair value hierarchy, the Company's investments at fair value at December 31, 2012:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------|-------------------|----------------|----------------|
| Cash and cash equivalents | \$ 124,760 | \$ - | \$ - |
| Fixed income securities | 163,920 | - | - |
| Equities | 264,061 | - | - |
| | <u>\$ 552,741</u> | <u>\$ -</u> | <u>\$ -</u> |

NOTE E - 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 and expenses and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. The supplemental schedule of functional expenses presents the expenses by natural classification.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted donations were expended in 2012 and there is no excess to be carried forward to future years.

NOTE G - RETIREMENT FUND

The Company has a SIMPLE - IRA plan for all full-time employees. The Company contributed \$2,485 for three employees in 2012. The plan is administered by the Fidelity Management Trust Company.

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE H - LEASES

The Company entered into a lease agreement with the Marlin Leasing Corporation for a copier. The lease term is 24 months and began in June of 2012. Expenses from the lease agreement for the year ended December 31, 2012 totaled \$677.

Total future maturities under this lease are as follows:

| | |
|-------|-----------------|
| 2013 | \$ 888 |
| 2014 | 370 |
| Total | <u>\$ 1,258</u> |

NOTE I – CONCENTRATIONS

The Company has a concentration of credit risk in that it periodically maintains cash deposits in a single financial institution in excess of amounts insured by the FDIC. The Company has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

NOTE J – DATE OF MANAGEMENT’S REVIEW

Management has evaluated subsequent events through July 1, 2013, which is the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

INTERNATIONAL BOOK PROJECT, INC.
 SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
 YEAR ENDED DECEMBER 31, 2012

| | Program Services | | Supporting Services | | Total |
|-------------------------|---------------------------------------|------------------|---------------------|-------------|-------------------|
| | Management and General Administration | | Fundraising General | | |
| | General | Administration | General | Fundraising | |
| Salaries | \$ 54,117 | \$ 13,996 | \$ 25,193 | \$ | \$ 93,306 |
| Employee benefits | 5,842 | 1,511 | 2,719 | | 10,072 |
| Payroll taxes | 4,440 | 1,148 | 2,067 | | 7,656 |
| Accounting and auditing | 2,537 | 3,363 | - | | 5,900 |
| Volunteers | 1,431 | - | - | | 1,431 |
| Supplies/office expense | 4,436 | 2,662 | 1,774 | | 8,872 |
| Telephone | 1,060 | 410 | 239 | | 1,710 |
| Postage and shipping | 134,923 | - | - | | 134,923 |
| Bank fees | 3,138 | - | - | | 3,138 |
| Utilities | 2,523 | 977 | 570 | | 4,069 |
| Equipment leases | 631 | 631 | - | | 1,261 |
| Printing | - | 3,491 | 1,164 | | 4,654 |
| Travel | - | - | 317 | | 317 |
| Miscellaneous expenses | - | 750 | - | | 750 |
| Taxes and licenses | 48 | - | - | | 48 |
| Insurance | 1,642 | 1,642 | - | | 3,283 |
| Depreciation | 6,723 | 585 | - | | 7,308 |
| Staff training | - | 968 | - | | 968 |
| Book acquisition | 8,247 | - | - | | 8,247 |
| Marketing expense | 3,288 | - | 3,288 | | 6,576 |
| Investment expense | 2,258 | - | - | | 2,258 |
| Books as Bridges | 9,343 | - | - | | 9,343 |
| | <u>\$ 246,627</u> | <u>\$ 32,132</u> | <u>\$ 37,331</u> | <u>\$</u> | <u>\$ 316,090</u> |
| | <u>78.0%</u> | <u>10.2%</u> | <u>11.8%</u> | | |

See Independent Auditors' Report and Notes to Financial Statements.