

INTERNATIONAL BOOK PROJECT, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2015 and 2014

ENDERLE BESTEN DIERUF, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of International Book Project, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets – modified cash basis as of December 31, 2015 and 2014 and the related statements of support, revenue, and expenses – modified cash basis and cash flows – modified cash basis for the years 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 modified 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 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 audits 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 financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of International Book Project, Inc. as of December 31, 2015 and 2014 and its support, revenue, and expenses and cash flows for the years 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 schedules of functional expenses on page 14-15 are presented for purposes of additional analysis and are 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.

Emmale Beaton Diruf

April 25, 2016

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

| | <u>2015</u> | <u>2014</u> |
|---------------------------------------|-------------|--------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 22,973 | \$ 73,382 |
| TOTAL CURRENT ASSETS | 22,973 | 73,382 |
| PROPERTY, PLANT, AND EQUIPMENT | | |
| Building and improvements | 214,466 | 212,618 |
| Machinery and equipment | 73,445 | 72,995 |
| TOTAL PROPERTY, PLANT, AND EQUIPMENT | 287,911 | 285,613 |
| Accumulated depreciation | (231,824) | (223,784) |
| NET PROPERTY, PLANT, AND EQUIPMENT | 56,087 | 61,829 |
| OTHER ASSETS | | |
| Investment trust account | 855,416 | 896,217 |
| TOTAL ASSETS | \$ 934,476 | \$ 1,031,428 |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Payroll taxes payable | \$ 5,155 | \$ 6,005 |
| TOTAL LIABILITIES | 5,155 | 6,005 |
| NET ASSETS | | |
| Unrestricted | 929,321 | 1,025,423 |
| TOTAL NET ASSETS | 929,321 | 1,025,423 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 934,476 | \$ 1,031,428 |

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, 2015

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| SUPPORT AND REVENUE | | | |
| General and shipping contributions | \$ 53,491 | \$ - | \$ 53,491 |
| Grants and capital projects | 133,980 | - | 133,980 |
| Fundraising event | 15,803 | - | 15,803 |
| Sales | 59,967 | - | 59,967 |
| Interest | - | - | - |
| Program fees | 53,561 | - | 53,561 |
| Other income | 296 | - | 296 |
| Net assets released from restriction: | | | |
| Satisfaction of program restrictions | - | - | - |
| TOTAL SUPPORT AND REVENUE | <u>317,098</u> | <u>-</u> | <u>317,098</u> |
| INVESTMENT ACTIVITY | | | |
| Interest and dividends | 24,790 | - | 24,790 |
| Realized gains (losses) | (10,376) | - | (10,376) |
| Unrealized gains (losses) | <u>(27,762)</u> | <u>-</u> | <u>(27,762)</u> |
| TOTAL INVESTMENT ACTIVITY | (13,348) | - | (13,348) |
| EXPENSES | | | |
| Program services | 307,519 | - | 307,519 |
| Supporting services: | | | |
| Management and general administration | 44,260 | - | 44,260 |
| Fundraising | <u>48,073</u> | <u>-</u> | <u>48,073</u> |
| TOTAL EXPENSES | <u>399,852</u> | <u>-</u> | <u>399,852</u> |
| CHANGE IN NET ASSETS | (96,102) | - | (96,102) |
| NET ASSETS - BEGINNING OF YEAR | <u>1,025,423</u> | <u>-</u> | <u>1,025,423</u> |
| NET ASSETS - END OF YEAR | <u>\$ 929,321</u> | <u>\$ -</u> | <u>\$ 929,321</u> |

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, 2014

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|---------------------|
| SUPPORT AND REVENUE | | | |
| General and shipping contributions | \$ 59,231 | \$ - | \$ 59,231 |
| Grants and capital projects | 132,440 | - | 132,440 |
| Fundraising event | 18,441 | - | 18,441 |
| Sales | 52,415 | - | 52,415 |
| Interest | 184 | - | 184 |
| Program fees | 38,429 | - | 38,429 |
| Books as Bridges | 608 | - | 608 |
| Net assets released from restriction: | | | |
| Satisfaction of program restrictions | - | - | - |
| TOTAL SUPPORT AND REVENUE | <u>301,748</u> | <u>-</u> | <u>301,748</u> |
| INVESTMENT ACTIVITY | | | |
| Interest and dividends | 22,118 | - | 22,118 |
| Realized gains (losses) | 23,809 | - | 23,809 |
| Unrealized gains (losses) | 7,060 | - | 7,060 |
| TOTAL INVESTMENT ACTIVITY | <u>52,987</u> | <u>-</u> | <u>52,987</u> |
| EXPENSES | | | |
| Program services | 233,629 | - | 233,629 |
| Supporting services: | | | |
| Management and general administration | 38,271 | - | 38,271 |
| Fundraising | 45,193 | - | 45,193 |
| TOTAL EXPENSES | <u>317,093</u> | <u>-</u> | <u>317,093</u> |
| CHANGE IN NET ASSETS | 37,642 | - | 37,642 |
| NET ASSETS - BEGINNING OF YEAR | <u>987,781</u> | <u>-</u> | <u>987,781</u> |
| NET ASSETS - END OF YEAR | <u>\$ 1,025,423</u> | <u>\$ -</u> | <u>\$ 1,025,423</u> |

See Independent Auditors' Report and Notes to Financial Statements.

INTERNATIONAL BOOK PROJECT, INC.
STATEMENTS OF CASH FLOWS - MODIFIED CASH BASIS
YEARS ENDED DECEMBER 31,

| | <u>2015</u> | <u>2014</u> |
|--|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | \$ (96,102) | \$ 37,642 |
| Adjustments to reconcile change in net assets to net cash flows from operating activities: | | |
| Unrealized (gain) loss | 27,762 | (7,060) |
| Realized (gain) loss | 10,376 | - |
| Depreciation | 8,040 | 8,183 |
| Increase (decrease) in operating liabilities | | |
| Payroll taxes | (850) | 2,192 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | (50,774) | 40,957 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments | (198,409) | (189,725) |
| Sales of investments | 201,072 | 146,621 |
| Purchase of equipment | (2,298) | (2,049) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | 365 | (45,153) |
| NET CHANGE IN CASH FLOWS | (50,409) | (4,196) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 73,382 | 77,578 |
| CASH AND CASH EQUIVALENTS - END OF YEAR | \$ 22,973 | \$ 73,382 |
| 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 Organization) 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 people of the developing world, the Organization 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; 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 Organization 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 Organization 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 Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2015, 2014, 2013, 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

Uncertain Tax Positions

Management has determined that the Organization does not have any uncertain tax positions and associated unrecognized benefits that materially impact the financial statements or related disclosures. As tax matters are subject to some degree of uncertainty, there can be no assurance that the Organization's tax returns will not be challenged by the taxing authorities and that the Organization will not be subject to additional tax, penalties, and interest as a result of such challenge.

Financial Statement Presentation

The Organization 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). As of December 31, 2015 and 2014 there were no temporarily or permanently restricted net assets.

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 1,725 and 3,451 were documented and, for purposes of disclosure in the footnotes only, management determined that this approximated \$28,506 and \$57,011 of donated time during 2015 and 2014, respectively. In addition, for purpose of disclosure in the footnotes only, management determined shipment values of assorted books of \$5,898,962 and \$4,048,448 for 2015 and 2014, respectively.

Fixed Assets

Property is stated at cost, if purchased, and at estimated fair value if donated. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. Depreciation expense is computed using the straight-line method using the following asset lives: Buildings – 20 years, Equipment 3-7 years, and Building Additions – 7-10 years.

Date of Management's Review

Management has evaluated subsequent events through April 25, 2016, which is the date the financial statements were available to be issued.

NOTE C - INVESTMENTS

The Organization maintains a trust portfolio held at LPL Financial. The Trustee shall apply the net income from the trust to the Organization's use as directed by the Organization. The Trustee may apply to the use of the Organization as much or all of the principal of this Trust as the Organization 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, 2015 and 2014, the investment had a cost value of \$746,803 and \$685,590 and market value of \$855,416 and \$896,217, respectively. Total fees paid for the year ended December 31, 2015 and 2014 were \$7,453 and \$5,783, respectively.

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE C - INVESTMENTS – continued

The following schedules summarize the investment return and its classification in the statement of support, revenue and expenses - modified cash basis for the years ended December 31, 2015 and 2014:

| | <u>2015</u> | <u>2014</u> |
|---------------------------|--------------------|------------------|
| Interest and Dividends | \$ 24,790 | \$ 22,118 |
| Realized gains (losses) | (10,376) | 23,809 |
| Unrealized gains (losses) | (27,762) | 7,060 |
| Total investment return | <u>\$ (13,348)</u> | <u>\$ 52,987</u> |

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 Organization's investments at fair value at December 31, 2015:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|----------------------------------|-------------------|----------------|----------------|
| Cash and cash equivalents | \$ 4,211 | \$ - | \$ - |
| Equities and options | 11,166 | - | - |
| Mutual and exchange traded funds | 840,039 | - | - |
| | <u>\$ 855,416</u> | <u>\$ -</u> | <u>\$ -</u> |

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value at December 31, 2014:

| <u>Description</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------|-------------------|----------------|----------------|
| Cash and cash equivalents | \$ 21,660 | \$ - | \$ - |
| Mutual funds | 229,800 | - | - |
| Exchange traded funds | 625,599 | - | - |
| Exchange traded notes | 19,158 | - | - |
| | <u>\$ 896,217</u> | <u>\$ -</u> | <u>\$ -</u> |

INTERNATIONAL BOOK PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

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 support, revenue, and expenses – modified cash basis. 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 - RETIREMENT FUND

The Organization has a SIMPLE - IRA plan for all full-time employees administered by the Fidelity Management Trust Company. The Organization contributed \$1,844 and \$3,197 to the plan during 2015 and 2014, respectively.

NOTE G - LEASES

The Organization entered into a 24 month lease agreement with for a copier beginning in June of 2012 including monthly fees for use and quarterly fees for service renewing automatically. Expenses from the lease agreement for the years ended December 31, 2015 and 2014 totaled \$389 and \$1,518, respectively. The lease was cancelled at the end of its term in June 2015 and replaced with a new lease agreement. The new five year agreement calls for monthly payments of \$67 beginning in July 2015.

NOTE H – CONCENTRATIONS

The Organization 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 Organization has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

Although the Organization is directly affected by economic conditions in the geographic area, management does not believe significant credit risk exists as of December 31, 2015 and 2014.

The Organization's investments are exposed to various risks, such as interest rate, credit risks and market. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term.

SUPPLEMENTAL INFORMATION

INTERNATIONAL BOOK PROJECT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2015

| | Program Services | Supporting Services | | |
|--------------------------|---------------------|---|------------------------|-------------------|
| | Program | Management and General Administration | Fundraising General | Total |
| Salaries | \$ 82,540 | \$ 19,652 | \$ 28,823 | \$ 131,015 |
| Employee benefits | 11,598 | 2,761 | 4,050 | 18,409 |
| Payroll taxes | 6,872 | 1,636 | 2,400 | 10,908 |
| Professional fees | 3,794 | 3,792 | - | 7,586 |
| Other personnel expenses | 1,029 | - | - | 1,029 |
| Supplies/office expense | 3,264 | 1,958 | 1,306 | 6,528 |
| Repairs and maintenance | - | 3,980 | - | 3,980 |
| Telephone | 1,566 | 606 | 354 | 2,526 |
| Postage and shipping | 145,179 | - | - | 145,179 |
| Bank fees | 6,438 | - | - | 6,438 |
| Utilities | 2,830 | 1,096 | 639 | 4,565 |
| Equipment leases | 580 | 580 | - | 1,160 |
| Travel | 2,344 | - | - | 2,344 |
| Board expense | - | 784 | - | 784 |
| Miscellaneous expenses | - | 398 | - | 398 |
| Insurance | 1,766 | 1,764 | - | 3,530 |
| Depreciation | 7,397 | 643 | - | 8,040 |
| Fundraising | - | - | 9,045 | 9,045 |
| Bookstore expense | 998 | - | - | 998 |
| Security | - | 537 | - | 537 |
| Staff training | - | 346 | - | 346 |
| Book acquisition | 2,092 | - | - | 2,092 |
| Marketing expense | 1,455 | - | 1,456 | 2,911 |
| Investment expense | 3,726 | 3,727 | - | 7,453 |
| Books as Bridges | 22,051 | - | - | 22,051 |
| | <u>\$ 307,519</u> | <u>\$ 44,260</u> | <u>\$ 48,073</u> | <u>\$ 399,852</u> |
| | <u>76.9%</u> | <u>11.0%</u> | <u>12.0%</u> | |

See Independent Auditors' Report and Notes to Financial Statements.

INTERNATIONAL BOOK PROJECT, INC.
SCHEDULE OF FUNCTIONAL EXPENSES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2014

| | Program Services | Supporting Services | | Total |
|-------------------------|---------------------|---|------------------------|-------------------|
| | Program | Management and General Administration | Fundraising General | |
| Salaries | \$ 74,154 | \$ 17,656 | \$ 25,895 | \$ 117,705 |
| Employee benefits | 10,167 | 2,421 | 3,551 | 16,139 |
| Payroll taxes | 6,114 | 1,456 | 2,135 | 9,705 |
| Professional fees | 2,823 | 2,822 | - | 5,645 |
| Volunteers | 179 | - | - | 179 |
| Supplies/office expense | 3,249 | 1,949 | 1,299 | 6,497 |
| Repairs and maintenance | - | 2,352 | - | 2,352 |
| Telephone | 1,428 | 553 | 322 | 2,303 |
| Postage and shipping | 86,760 | - | - | 86,760 |
| Bank fees | 2,817 | - | - | 2,817 |
| Utilities | 3,672 | 1,422 | 829 | 5,923 |
| Equipment leases | 759 | 759 | - | 1,518 |
| Travel | 4,223 | - | - | 4,223 |
| Board expense | - | 478 | - | 478 |
| Miscellaneous expenses | - | 357 | - | 357 |
| Insurance | 1,771 | 1,770 | - | 3,541 |
| Depreciation | 7,528 | 655 | - | 8,183 |
| Fundraising | - | - | 8,620 | 8,620 |
| Bookstore expense | 1,492 | - | - | 1,492 |
| Security | - | 285 | - | 285 |
| Staff training | - | 444 | - | 444 |
| Book acquisition | 2,919 | - | - | 2,919 |
| Marketing expense | 2,541 | - | 2,542 | 5,083 |
| Investment expense | 2,891 | 2,892 | - | 5,783 |
| Books as Bridges | 18,142 | - | - | 18,142 |
| | <u>\$ 233,629</u> | <u>\$ 38,271</u> | <u>\$ 45,193</u> | <u>\$ 317,093</u> |
| | <u>73.7%</u> | <u>12.0%</u> | <u>14.3%</u> | |

See Independent Auditors' Report and Notes to Financial Statements.