

INTERNATIONAL BOOK PROJECT, INC.

AUDITED FINANCIAL STATEMENTS

DECEMBER 31, 2016 and 2015

*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, 2016 and 2015 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, 2016 and 2015 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.

## Report on Supplementary Information

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.

*Emile Beaton Diruf*

May 30, 2017

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

ASSETS	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 40,432	\$ 22,973
TOTAL CURRENT ASSETS	<u>40,432</u>	<u>22,973</u>
<b>PROPERTY, PLANT, AND EQUIPMENT</b>		
Building and improvements	214,466	214,466
Machinery and equipment	89,015	73,445
TOTAL PROPERTY, PLANT, AND EQUIPMENT	<u>303,481</u>	<u>287,911</u>
Accumulated depreciation	(239,925)	(231,824)
NET PROPERTY, PLANT, AND EQUIPMENT	<u>63,556</u>	<u>56,087</u>
<b>OTHER ASSETS</b>		
Investment trust account	<u>915,889</u>	<u>855,416</u>
TOTAL ASSETS	<u><u>\$ 1,019,877</u></u>	<u><u>\$ 934,476</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Payroll taxes payable	\$ 213	\$ 5,155
TOTAL LIABILITIES	<u>213</u>	<u>5,155</u>
<b>NET ASSETS</b>		
Unrestricted	1,019,664	929,321
TOTAL NET ASSETS	<u>1,019,664</u>	<u>929,321</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,019,877</u></u>	<u><u>\$ 934,476</u></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, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
General and shipping contributions	\$ 59,487	\$ -	\$ 59,487
Grants and capital projects	172,832	-	172,832
Fundraising event	9,299	-	9,299
Sales	41,393	-	41,393
Interest	-	-	-
Program fees	100,313	-	100,313
Other income	2,550	-	2,550
Net assets released from restriction:			
Satisfaction of program restrictions	-	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>385,874</u>	<u>-</u>	<u>385,874</u>
 <b>INVESTMENT ACTIVITY</b>			
Interest and dividends	21,062	-	21,062
Realized gains (losses)	-	-	-
Unrealized gains (losses)	45,914	-	45,914
<b>TOTAL INVESTMENT ACTIVITY</b>	<u>66,976</u>	<u>-</u>	<u>66,976</u>
 <b>EXPENSES</b>			
Program services	278,295	-	278,295
Supporting services:			
Management and general administration	41,951	-	41,951
Fundraising	42,261	-	42,261
<b>TOTAL EXPENSES</b>	<u>362,507</u>	<u>-</u>	<u>362,507</u>
 <b>CHANGE IN NET ASSETS</b>	<u>90,343</u>	<u>-</u>	<u>90,343</u>
 <b>NET ASSETS - BEGINNING OF YEAR</b>	<u>929,321</u>	<u>-</u>	<u>929,321</u>
 <b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 1,019,664</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,019,664</u></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, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>SUPPORT AND REVENUE</b>			
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	-	-	-
<b>TOTAL SUPPORT AND REVENUE</b>	<u>317,098</u>	<u>-</u>	<u>317,098</u>
 <b>INVESTMENT ACTIVITY</b>			
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>
<b>TOTAL INVESTMENT ACTIVITY</b>	<u>(13,348)</u>	<u>-</u>	<u>(13,348)</u>
 <b>EXPENSES</b>			
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>
<b>TOTAL EXPENSES</b>	<u>399,852</u>	<u>-</u>	<u>399,852</u>
 <b>CHANGE IN NET ASSETS</b>	<u>(96,102)</u>	<u>-</u>	<u>(96,102)</u>
 <b>NET ASSETS - BEGINNING OF YEAR</b>	<u>1,025,423</u>	<u>-</u>	<u>1,025,423</u>
 <b>NET ASSETS - END OF YEAR</b>	<u><u>\$ 929,321</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 929,321</u></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>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 90,343	\$ (96,102)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Unrealized (gain) loss	(45,914)	27,762
Realized (gain) loss	-	10,376
Depreciation	8,101	8,040
Increase (decrease) in operating liabilities		
Payroll taxes	(4,942)	(850)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>47,588</u>	<u>(50,774)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(233,183)	(198,409)
Sales of investments	218,624	201,072
Purchase of equipment	(15,570)	(2,298)
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(30,129)</u>	<u>365</u>
NET CHANGE IN CASH FLOWS	17,459	(50,409)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>22,973</u>	<u>73,382</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 40,432</u>	<u>\$ 22,973</u>
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 2016, 2015, and 2014 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, 2016 and 2015 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 1,856 and 1,725 were documented and, for purposes of disclosure in the footnotes only, management determined that this approximated \$30,661 and \$28,506 of donated time during 2016 and 2015, respectively. In addition, for purpose of disclosure in the footnotes only, management determined shipment values of assorted books of \$5,575,544 and \$5,898,962 for 2016 and 2015, 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 May 30, 2017, 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, 2016 and 2015, the investment had a cost value of \$727,337 and \$746,803 and market value of \$915,889 and \$855,416, respectively. Total fees paid for the year ended December 31, 2016 and 2015 were \$6,503 and \$7,453, 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, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Interest and Dividends	\$ 21,062	\$ 24,790
Realized gains (losses)	-	(10,376)
Unrealized gains (losses)	45,914	(27,762)
Total investment return	<u>\$ 66,976</u>	<u>\$ (13,348)</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, 2016:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and cash equivalents	\$ 52,794	\$ -	\$ -
Equities and options	58,982	-	-
Mutual and exchange traded funds	804,113	-	-
	<u>\$ 915,889</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, 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>

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 \$507 and \$1,844 to the plan during 2016 and 2015, respectively.

NOTE G - LEASES

The Organization entered into a five year lease agreement with for a copier beginning in June of 2015. The agreement calls for monthly payments of \$67 beginning in July 2015. Expenses from the lease agreement for the years ended December 31, 2016 and 2015 totaled \$810 and \$389, respectively.

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, 2016 and 2015.

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, 2016

	Program Services	Supporting Services		
	Program	Management and General Administration	Fundraising General	Total
Salaries	\$ 74,065	\$ 17,635	\$ 25,864	\$ 117,564
Employee benefits	10,406	2,478	3,634	16,518
Payroll taxes	5,648	1,345	1,972	8,965
Professional fees	3,867	3,865	-	7,732
Other personnel expenses	3,121	-	-	3,121
Supplies/office expense	2,961	1,776	1,184	5,921
Repairs and maintenance	-	5,645	-	5,645
Telephone	1,590	616	359	2,565
Postage and shipping	130,453	-	-	130,453
Bank fees	6,231	-	-	6,231
Utilities	2,214	857	500	3,571
Equipment leases	485	486	-	971
Travel	926	-	-	926
Board expense	-	765	-	765
Miscellaneous expenses	-	298	-	298
Insurance	908	906	-	1,814
Depreciation	7,453	648	-	8,101
Fundraising	-	-	5,810	5,810
Bookstore expense	5,825	-	-	5,825
Security	-	552	-	552
Staff training	-	827	-	827
Book acquisition	4,913	-	-	4,913
Marketing expense	2,937	-	2,938	5,875
Investment expense	3,251	3,252	-	6,503
Books as Bridges	11,041	-	-	11,041
	<u>\$ 278,295</u>	<u>\$ 41,951</u>	<u>\$ 42,261</u>	<u>\$ 362,507</u>
	<u>76.8%</u>	<u>11.5%</u>	<u>11.7%</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, 2015

	Program Services	Supporting Services		
		Management and General Administration	Fundraising General	Total
	Program			
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.