

AUDITED FINANCIAL STATEMENTS  
INTERNATIONAL BOOK PROJECT, INC.  
LEXINGTON, KENTUCKY  
December 31, 2006

C O N T E N T S

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of assets, liabilities and net assets - modified cash basis of International Book Project, Inc. (a non-profit organization) as of December 31, 2006, and the related statements of support, revenue and expenses - modified cash basis and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 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.

As described in Note B, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

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, 2006, and the support, revenue and expenses and cash flows for the year then ended, on the basis of accounting described in NOTE B.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 10 is presented for the purposes of additional analysis and is not a required part of basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brown & Dougherty, PSC*

May 31, 2007

STATEMENT OF ASSETS, LIABILITIES AND NET ASSETS  
(MODIFIED CASH BASIS)

INTERNATIONAL BOOK PROJECT, INC.

December 31, 2006

ASSETS

CURRENT ASSETS

|                          |                |
|--------------------------|----------------|
| Cash - Checking          | \$113,924      |
| Investment Trust Account | <u>352,994</u> |
|                          | 466,918        |

PROPERTY, PLANT AND EQUIPMENT -

on the basis of cost

|                           |               |
|---------------------------|---------------|
| Building and improvements | 126,510       |
| Machinery and equipment   | <u>59,339</u> |

185,849

|  |                  |
|--|------------------|
| Allowance for depreciation (deduction) | <u>(160,316)</u> |
|--|------------------|

25,533

TOTAL ASSETS

\$492,451

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

|                       |              |
|-----------------------|--------------|
| Bank line of credit   | \$ 15,000    |
| Payroll taxes payable | 2,236        |
| Other payable         | <u>1,085</u> |

TOTAL LIABILITIES

18,321

NET ASSETS

|                        |                |
|------------------------|----------------|
| Unrestricted           | 367,630        |
| Temporarily restricted | <u>106,500</u> |

TOTAL NET ASSETS

474,130

TOTAL LIABILITIES AND NET ASSETS

\$492,451

See independent auditors' report and notes to financial statements.

STATEMENT OF SUPPORT, REVENUE AND EXPENSES -  
MODIFIED CASH BASIS

INTERNATIONAL BOOK PROJECT, INC.

Year ended December 31, 2006

|   | <u>UNRESTRICTED</u> | <u>TEMPORARILY<br/>RESTRICTED</u> | <u>TOTAL</u>     |
|---|---------------------|-----------------------------------|------------------|
| <b>SUPPORT AND REVENUE</b>  |                     |                                   |                  |
| General & shipping contributions  | \$ 99,356           | \$ 3,650                          | \$103,006        |
| Grants & capital projects   | 3,602               | 100,000                           | 103,602          |
| Fundraising event   | 11,264              | -                                 | 11,264           |
| Sales   | 31,082              | -                                 | 31,082           |
| Interest  | 278                 | -                                 | 278              |
| Miscellaneous   | 556                 | -                                 | 556              |
| Trust investment return   | 44,942              | -                                 | 44,942           |
| Net assets released from restriction:<br>Satisfaction of program restrictions | -                   | -                                 | -                |
| <b>TOTAL SUPPORT AND REVENUE</b>  | <u>191,080</u>      | <u>103,650</u>                    | <u>294,730</u>   |
| <b>EXPENSES</b>   |                     |                                   |                  |
| Program services - general  | 62,135              | 78,648                            | 140,783          |
| Supporting services   |                     |                                   |                  |
| Management and general administration   | 40,685              | -                                 | 40,685           |
| Fundraising   | <u>43,991</u>       | <u>-</u>                          | <u>43,991</u>    |
| <b>TOTAL EXPENSES</b>   | <u>146,811</u>      | <u>78,648</u>                     | <u>225,459</u>   |
| <b>CHANGE IN NET ASSETS</b>   | 44,269              | 25,002                            | 69,271           |
| <b>NET ASSETS - BEGINNING OF YEAR</b>   | <u>323,361</u>      | <u>81,498</u>                     | <u>404,859</u>   |
| <b>NET ASSETS - END OF YEAR</b>   | <u>\$367,630</u>    | <u>\$106,500</u>                  | <u>\$474,130</u> |

See independent auditors' report and notes to financial statements.

STATEMENT OF CASH FLOWS  
INTERNATIONAL BOOK PROJECT, INC.

December 31, 2006

|   |                  |
|---|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                  |
| Change in net assets - modified cash basis  | \$ 69,271        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                  |
| Depreciation  | 10,627           |
| Increase (decrease) in accrued expenses and payroll taxes                         | (1,390)          |
| Increase (decrease) in loans  | <u>(5,000)</u>   |
| NET CASH PROVIDED BY OPERATING ACTIVITIES   | 73,508           |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                  |
| Purchase of Equipment   | <u>(8,500)</u>   |
| NET CASH USED BY INVESTING ACTIVITIES   | (8,500)          |
| NET INCREASE IN CASH FLOWS  | 65,008           |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR                                     | <u>401,910</u>   |
| CASH AND CASH EQUIVALENTS - END OF YEAR   | <u>\$466,918</u> |
| Supplemental data   |                  |
| Interest paid   | <u>\$ 1,229</u>  |

See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

INTERNATIONAL BOOK PROJECT, INC.

December 31, 2006

NOTE A - ORGANIZATION

The International Book Project, Inc. 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 International Book Project 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

1. Method of accounting - These financial statements have been prepared on the modified cash basis of accounting. International Book Project maintains its accounting records on the basis of cash receipts and disbursements; consequently, certain revenue and related assets are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred. 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 withholdings.
2. 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.
3. Financial Statement Presentation - In 1996, International Book Project adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, they are required to report information regarding financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets, and are required to present a statement of cash flows.
4. 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 inasmuch 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 2387 were documented and management determined that this approximated \$39,481 dollars of donated time. In addition Brother's Brother Foundation acknowledged that shipment values of assorted books in the amount of \$4,329,287 were considered as contributions to the organization.

NOTES TO FINANCIAL STATEMENTS - Continued

INTERNATIONAL BOOK PROJECT, INC.

December 31, 2006

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Fixed Assets - The provision for depreciation has been computed by the straight-line method using the following asset lives:

|           |               |
|-----------|---------------|
| Building  | 20 - 25 years |
| Equipment | 3 - 7 years   |

NOTE C - TRUST - BANK OF THE BLUEGRASS, TRUSTEE

International Book Project, Inc. maintains a trust portfolio held at Bank of the Bluegrass. The Trustee shall apply the net income from the trust to the Corporation's use as directed by the Corporation. The Trustee may apply to the use of the Corporation so much or all of the principal of this Trust as the Corporation 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 12/31/06, the account has an appreciated cost balance of \$315,018 and market value of \$352,994.

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, 2006:

|                           | <u>Unrestricted</u> |
|---------------------------|---------------------|
| Interest and dividends    | \$ 9,451            |
| Realized gains (losses)   | 4,000               |
| Unrealized gains (losses) | <u>31,491</u>       |
| Total investment return   | <u>\$44,942</u>     |

NOTE D - 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 E - INCOME TAXES

The Organization is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for income taxes in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

INTERNATIONAL BOOK PROJECT, INC.

December 31, 2006

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted donations were received in the current year and the excess will be carried over and used in the 2007 year.

NOTE G - RETIREMENT FUND

The organization has a simple - IRA plan for all full-time employees. The organization contributed \$239.98 for one employee in 2006. The plan is administered by the Fidelity Management Trust Company.

SCHEDULE OF FUNCTIONAL EXPENSES  
INTERNATIONAL BOOK PROJECT, INC.

Year ended December 31, 2006

| Program<br><u>Services</u> | Supporting Services                                  |                                |                 | <u>Total</u>     |
|----------------------------|--|--------------------------------|-----------------|------------------|
| <u>General</u>             | <u>Management<br/>and General<br/>Administration</u> | <u>Fundraising<br/>General</u> |                 |                  |
| Salaries                   | \$ 45,812  | \$17,420                       | \$10,088        | \$ 73,320        |
| Employee benefits          | 7,975  | 3,033                          | 1,756           | 12,764           |
| Payroll taxes              | 6,075  | 2,310                          | 1,338           | 9,723            |
| Accounting and auditing    | 1,500  | 3,677                          | -               | 5,177            |
| Volunteers                 | 366  | -                              | -               | 366              |
| Supplies/office expense    | 4,648  | 2,788                          | 1,859           | 9,295            |
| Telephone                  | 1,242  | 414                            | 414             | 2,070            |
| Postage and shipping       | 34,590   | 1,921                          | 1,922           | 38,433           |
| Utilities                  | 1,994  | 665                            | 665             | 3,324            |
| Repairs and maintenance    | 399  | -                              | -               | 399              |
| Equipment leases           | 2,587  | 554                            | 554             | 3,695            |
| Printing and publishing    | 5,795  | -                              | 8,692           | 14,487           |
| Travel                     | -  | -                              | 785             | 785              |
| Miscellaneous expenses     | -  | 692                            | -               | 692              |
| Taxes and licenses         | 2,091  | -                              | -               | 2,091            |
| Insurance                  | 3,074  | -                              | -               | 3,074            |
| Board and annual meetings  | -  | 3,073                          | -               | 6,147            |
| Depreciation               | 9,151  | 310                            | -               | 10,627           |
| UK Work Study              | 1,872  | 1,476                          | -               | 3,744            |
| Interest Expense           | -  | 1,123                          | 749             | 1,229            |
| Marketing Expense          | -  | 1,229                          | -               | 25,281           |
| Investment Expense         | 10,112   | -                              | 15,169          | 1,500            |
|                            | <u>1,500</u>   | <u>\$40,685</u>                | <u>\$43,991</u> | <u>\$225,459</u> |
|                            | <u>\$140,783</u>                                     |                                |                 |                  |
|                            | <u>62.4%</u>   | <u>18.1%</u>                   | <u>19.5%</u>    |                  |

See independent auditors' report and notes to financial statements.