

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

WORLD BICYCLE RELIEF

DECEMBER 31, 2009

World Bicycle Relief
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
World Bicycle Relief

We have audited the accompanying consolidated statement of financial position of World Bicycle Relief as of December 31, 2009, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of World Bicycle Relief as of December 31, 2009, and the changes in its consolidated net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements taken as a whole.

Reznick Group, P.C.

Skokie, Illinois
August 23, 2010

World Bicycle Relief

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS

CURRENT ASSETS

Cash	\$ 1,173,497
Investments	3,528
Receivables	633,802
Inventory	<u>29,136</u>

Total current assets 1,839,963

OTHER ASSETS

Prepayments	<u>105,900</u>
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FIXED ASSETS

At cost net of accumulated depreciation of \$18,620	<u>73,849</u>
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TOTAL ASSETS \$ 2,019,712

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 552,404
Customer deposits	<u>119,190</u>

Total current liabilities 671,594

NET ASSETS

Unrestricted	<u>1,348,118</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 2,019,712

See notes to financial statements

World Bicycle Relief

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2009

Revenue and support	
Contributions and grants	\$ 2,324,887
Bicycle sales	675,219
Miscellaneous	7,410
	<hr/>
Total revenue and support	3,007,516
	<hr/>
Expenses	
Program services:	
Project Zambia	858,084
Bicycle Education Empowerment Program (BEEP)	1,190,910
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Total program services	2,048,994
	<hr/>
Supporting services:	
Management and general	124,529
Fundraising	189,260
	<hr/>
Total supporting services	313,789
	<hr/>
Total expenses	2,362,783
	<hr/>
Increase (decrease) in net assets	644,733
Other nonoperating changes in net assets	
Foreign exchange loss	(10,799)
Net assets, beginning of year	714,184
	<hr/>
Net assets, end of year	\$ 1,348,118
	<hr/>

See notes to financial statements

World Bicycle Relief

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2009

	Programs		Management and general	Fundraising	Total
	Project Zambia	BEEP			
Functional expenses					
Cost of goods sold	\$ 539,159	\$ 282,955	\$ -	\$ -	\$ 822,114
Bicycles and parts	61,305	3,337	-	-	64,642
Communication	62,098	83,055	74	-	145,227
Development	10,036	14,927	-	-	24,963
Product development	8,063	7,718	-	-	15,781
World Vision	(464,678)	250,000	-	-	(214,678)
Supplies	4,164	931	1,162	-	6,257
Salaries and benefits	236,991	366,342	31,140	26,505	660,978
Travel and transportation	105,250	68,474	-	-	173,724
Professional fees	126,206	723	42,971	-	169,900
Rental costs	64,024	55,822	-	-	119,846
Insurance	2,618	-	760	-	3,378
Postage and shipping fees	33,448	4,272	4,956	-	42,676
Training	7,694	17,717	-	-	25,411
Bank and credit card fees	1,775	-	32,203	-	33,978
Depreciation	11,978	-	6,821	-	18,799
Miscellaneous	47,953	34,637	4,442	-	87,032
Fundraising	-	-	-	162,755	162,755
Total functional expenses	<u>\$ 858,084</u>	<u>\$ 1,190,910</u>	<u>\$ 124,529</u>	<u>\$ 189,260</u>	<u>\$ 2,362,783</u>

See notes to financial statements

World Bicycle Relief

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2009

Cash flows from operating activities	
Increase (decrease) in net assets	\$ 644,733
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	18,799
Realized loss on investments	210
Gain on sale of equipment	(2,068)
Effect of exchange rate changes on cash	(10,799)
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	(600,815)
Inventory	(28,936)
Prepayments	(105,900)
Increase (decrease) in:	
Accounts payable and accrued expenses	(258,504)
Customer deposits	466
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Net cash used in operating activities	(342,814)
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Cash flows from investing activities	
Contribution of investments	(4,552)
Disposal of investments	1,833
Proceeds from the sale of equipment	7,445
Purchase of equipment	(78,405)
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Net cash used in investing activities	(73,679)
	<hr/>
Net decrease in cash	(416,493)
	<hr/>
Cash, beginning of year	1,589,990
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Cash, end of year	\$ 1,173,497
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See notes to financial statements

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2009

NOTE 1 - ORGANIZATION

World Bicycle Relief, NFP (the Corporation) is a section 501(c)(3) tax-exempt public charity, incorporated on June 20, 2006 and existing under the Illinois General Not-For-Profit Corporation Act, to provide access to independence and livelihood through the power of bicycles.

World Bicycle Relief - Zambia was incorporated on July 12, 2007 in the Republic of Zambia. It serves to carry out the on-site Zambian program operations of World Bicycle Relief, NFP. In addition, it sells bicycles to local Corporations and individuals interested in bicycles that are adept to the African terrain.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of World Bicycle Relief, NFP and World Bicycle Relief - Zambia. All significant inter-corporation accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. Additionally, information is required to segregate program service expenses from support expenses. Support expenses include management and general and fundraising expenses.

Revenue Recognition

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions received with donor imposed restrictions that are met in the same year as received are reported as unrestricted revenues. Contributions of assets other than cash are recorded at their estimated fair market value. The expiration of temporary restrictions on net assets (i.e., the donor imposed stipulated purpose has been fulfilled, or the stipulated time

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Donated investments are recorded at the fair market value as of the date of the contribution. Gains and losses on investments and other assets or liabilities, are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law.

Prepayments

Prepayments consist of down payments of bicycles and bicycle parts and the prepayment of insurance costs. Once the bicycles and bicycle parts are received, the related prepayments are reclassified as an expense. Prepaid insurance is reclassified to expense as insurance coverage is incurred over the life of the insurance policy.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Accounts Receivable and Bad Debts

Accounts receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Inventory

Inventory consists of bicycles and bicycle parts and is stated at donated value. Any purchased inventory is stated at the lower of cost or market value.

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

Marketable Securities

World Bicycle Relief NFP's marketable securities consist of equity securities classified as available-for-sale which are stated at estimated fair values based primarily upon market quotes. Unrealized gains and losses are computed on the basis of specific identification and are reported as a separate component in other comprehensive income until realized. During 2009, Management has not adjusted their marketable securities to fair value; however the difference of this adjustment is not material to the financial statements as a whole. A decline in the value of any marketable security, below cost that is deemed other than temporary, is charged to earnings, resulting in a new cost basis for security.

Income Tax Status

World Bicycle Relief, NFP is a not-for-profit entity, as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from income taxes, except to the extent of any unrelated business income. World Bicycle Relief - Zambia is a charitable institution, as described in Section 41 of the Zambian Income Tax Act, under Chapter 323 of The Laws of Zambia. Neither entity had taxable income for the year ended December 31, 2009. Accordingly, no provision of income taxes is included in the financial statements.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued the Accounting Standards Codification (Codification). Effectively July 1, 2009, the Codification is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Codification is intended to reorganize, rather than change, existing GAAP. Accordingly, all references to currently existing GAAP have been removed and have been replaced with plain English explanations of the Corporation's accounting policies. The adoption of the Codification did not have a material impact on the Corporation's financial position or results of operations.

Advertising

Advertising costs are charged to operations when incurred.

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

Capitalization and Depreciation

Vehicles, furniture and equipment are recorded at cost, net of accumulated depreciation. Vehicles, furniture and equipment are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. Assets are depreciated over their estimated service lives. The estimated service lives of the assets for depreciation purposes may be different than their actual economic useful lives.

	<u>Estimated life</u>	<u>Method</u>
Vehicles	5 years	Straight-line
Furniture and equipment	5 years	Accelerated

Breakdown by asset class:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>
Vehicles	\$ 12,909	\$ 61,330	\$ (12,909)	\$ 61,330
Furniture and equipment	14,064	17,075	-	31,139
Total	26,973	78,405	(12,909)	92,469
Accumulated depreciation	<u>(7,353)</u>	<u>(18,799)</u>	<u>7,532</u>	<u>(18,620)</u>
Net book value	<u>\$ 19,620</u>	<u>\$ 59,606</u>	<u>\$ (5,377)</u>	<u>\$ 73,849</u>

Foreign Currency Translation

The U.S. dollar (“dollars”) is the functional currency for World Bicycle Relief, NFP’s operations worldwide. Transactions in currencies other than dollars are translated into dollars at the rates of exchange in effect during the date of the transaction. Property and equipment purchase with non-U.S. currency are translated into dollars at the exchange rate in

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

effect at the time of the purchase. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the date of the balance sheet.

NOTE 3 - CONCENTRATION OF CREDIT RISK

The Corporation maintains its cash in several accounts in various banks. The cash balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At times, these balances may exceed the federal insured limits; however, the Corporation has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentrations of credit risk exists with respect to these cash balances at December 31, 2009.

NOTE 4 - LEASE COMMITMENT

World Bicycle Relief - Zambia entered into an office lease in March 2008 through December 2009. The office lease payments started at \$1,334 in March 2008 and then increased to \$1,769 in June 2009. In March 2010, World Bicycle Relief - Zambia entered into a three year office lease with monthly payments of \$3,500. In April 2010, World Bicycle Relief - Zambia entered into a three year warehouse and office lease with monthly payments of \$5,500. In April 2009, World Bicycle Relief - Zambia entered into a single year staff residential lease with monthly payments of \$1,350. In April 2010, World Bicycle Relief - Zambia entered into another single year staff residential lease with monthly payments of \$1,350.

Future minimum lease payments through December 2014 are as follows:

	Office	Warehouse	Staff
January 1, 2010 - December 31, 2010	\$ 38,538	\$ 49,500	\$ 16,200
2011	42,000	66,000	4,050
2012	42,000	66,000	-
2013	7,000	16,500	-
2014	-	-	-

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

NOTE 5 - IN-KIND DONATIONS

The Corporation receives management services and office space including utilities from SRAM, LLC and has recognized contribution revenue and related expenses for in-kind services received at no cost. For the year ended December 31, 2009, the total value of services received totaled \$145,754.

NOTE 6 - INVESTMENTS

Investment activity through year end December 31, 2009 is as follows:

	Fair market value December 31, 2008	Transfer in/(out), net	Purchases/ (sale), net	Realized gain/(loss)	Unrealized gain/(loss)	Fair market value December 31, 2009	Carrying value
Stocks	\$ 1,019	\$ 4,552	\$ (1,833)	\$ (210)	\$ -	\$ 3,528	\$ 3,528
Total	\$ 1,019	\$ 4,552	\$ (1,833)	\$ (210)	\$ -	\$ 3,528	\$ 3,528

Investments consist of publicly traded equity securities that are classified as available-for-sale. Accounting principles generally accepted in the United States of America require the carrying value of the available-for-sale securities to be adjusted at the end of each reporting period to other comprehensive income. Management has elected not to make this adjustment; however the departure will not have a material effect on the financial statements as a whole.

NOTE 7 - FAIR VALUE

The accounting standard for fair value measurement and disclosures defines fair value, establishes a framework for measuring fair value, and provides for expanded disclosure about fair value measurements. The accounting standard was applied to the Corporation's financial assets and liabilities effective January 1, 2008, and to certain non-financial assets and liabilities effective January 1, 2009. Fair value is defined by the accounting standard for fair value measurement and disclosures as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. It also establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value the Corporation uses when measuring fair value:

- Level 1 input utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Corporation has the ability to access;

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

- Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as interest rates and yield curves that are observable at commonly quoted intervals; and
- Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's own assumptions as there is little, if any, related market activity.

In instances where the determination of the fair values measurement is based on inputs from different levels of the fair values hierarchy the fair value measurement will fall within the lowest level input that is significant to the fair values measurement in its entirety.

No other assets or liabilities are measured at fair value under this provision as of December 31, 2009.

The following table presents the financial assets that were measured at fair values on a recurring basis as of December 31, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Stocks	\$ 3,528	\$ -	\$ -	\$ 3,528
	<u>\$ 3,528</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,528</u>

NOTE 8 - COMMITMENTS

In late 2006, World Bicycle Relief, NFP, entered into a Memorandum of Understanding with World Vision, which began the initiative, Project Zambia, to provide 26,000 bicycles to enable healthcare workers in Zambia to reach individuals requiring HIV/AIDS care. The total projected cost of the program was \$2,904,408, with \$2,539,800 to be funded by World Bicycle Relief, NFP. Under the partnership agreement, the project was administered by World Vision, and World Bicycle Relief, NFP was to make quarterly payments of \$232,339 through September 30, 2009 or the completion of the project. As of June 30, 2008, World Bicycle Relief, NFP had paid World Vision \$1,589,565. However, beginning in the third quarter of 2008, World Bicycle Relief, NFP was instructed by World Vision to defer any additional quarterly payments as sufficient contributions were received from other donors. As World Bicycle Relief, NFP had not received any additional information from World Vision as of December 31, 2008, the quarterly payments for the third and fourth quarters of 2008, totaling \$464,678, were accrued as a contingent liability. During 2009, World Bicycle

World Bicycle Relief

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2009

Relief, NFP was informed by World Vision that additional payments were not required. As a result, the \$464,678 accrual recorded in 2008 was written off in 2009.

In mid-2009, World Bicycle Relief, NFP again partnered with World Vision to begin the Zambia Bicycle Educational Empowerment Program (BEEP). This initiative has been created to improve educational outcomes for children in 16 districts in Zambia identified as being in need by providing approximately 50,000 bicycles to students, teachers and community leaders. According to the Memorandum of Understanding, in addition to agreed upon fundraising efforts, World Bicycle Relief, NFP has committed to contribute \$250,000 and World Vision has committed to contribute \$650,000. As of December 31, 2009, World Bicycle Relief, NFP has contributed \$250,000 to the BEEP initiative.

NOTE 9 - SUBSEQUENT EVENTS

Events that occur after the financial position date but before the financial statements have been issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the financial position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the financial position date, require disclosure in the accompanying notes. Management evaluated the activity of the Corporation through August 23, 2010 (the date the financial statements were issued) and concluded that no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTAL INFORMATION

World Bicycle Relief

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2009

ASSETS

	NFP	Zambia	Eliminations	Consolidated
CURRENT ASSETS				
Cash	\$ 1,054,622	\$ 118,875	\$ -	\$ 1,173,497
Investments	3,528	-	-	3,528
Receivables	1,101,562	487,298	(955,058)	633,802
Inventory	19,037	10,099	-	29,136
	<u>2,178,749</u>	<u>616,272</u>	<u>(955,058)</u>	<u>1,839,963</u>
OTHER ASSETS				
Prepayments	-	105,900	-	105,900
FIXED ASSETS				
At cost net of accumulated depreciation of \$18,620	17,986	55,863	-	73,849
	<u>\$ 2,196,735</u>	<u>\$ 778,035</u>	<u>\$ (955,058)</u>	<u>\$ 2,019,712</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable and accrued expenses	\$ 456,722	\$ 1,050,740	\$ (955,058)	\$ 552,404
Customer deposits	-	119,190	-	119,190
	<u>456,722</u>	<u>1,169,930</u>	<u>(955,058)</u>	<u>671,594</u>
NET ASSETS				
Unrestricted	1,740,013	(391,895)	-	1,348,118
	<u>\$ 2,196,735</u>	<u>\$ 778,035</u>	<u>\$ (955,058)</u>	<u>\$ 2,019,712</u>

World Bicycle Relief

CONSOLIDATING STATEMENT OF ACTIVITIES

Year ended December 31, 2009

	<u>NFP</u>	<u>Zambia</u>	<u>Eliminations</u>	<u>Consolidated</u>
Revenue and support				
Contributions and grants	\$ 1,910,792	\$ 414,095	\$ -	\$ 2,324,887
Bicycle sales	-	675,219	-	675,219
Miscellaneous income	(6,273)	13,683	-	7,410
	<u>1,904,519</u>	<u>1,102,997</u>	<u>-</u>	<u>3,007,516</u>
Total revenue and support				
Expenses				
Program services				
Project Zambia	(78,080)	936,164	-	858,084
Bicycle Education				
Empowerment Program (BEEP)	780,458	410,452	-	1,190,910
	<u>702,378</u>	<u>1,346,616</u>	<u>-</u>	<u>2,048,994</u>
Total program services				
Supporting services:				
Management and general	124,529	-	-	124,529
Fundraising	189,260	-	-	189,260
	<u>313,789</u>	<u>-</u>	<u>-</u>	<u>313,789</u>
Total supporting services				
Total expenses	<u>1,016,167</u>	<u>1,346,616</u>	<u>-</u>	<u>2,362,783</u>
Increase (decrease) in net assets	888,352	(243,619)	-	644,733
Other nonoperating changes in net assets				
Foreign exchange loss	-	(10,799)	-	(10,799)
Net assets, beginning of year	<u>851,661</u>	<u>(137,477)</u>	<u>-</u>	<u>714,184</u>
Net assets, end of year	<u>\$ 1,740,013</u>	<u>\$ (391,895)</u>	<u>\$ -</u>	<u>\$ 1,348,118</u>