

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

**WORLD BICYCLE RELIEF, NFP AND ITS
SUBSIDIARY**

DECEMBER 31, 2010

World Bicycle Relief, NFP and its Subsidiary

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
World Bicycle Relief, NFP and its Subsidiary

We have audited the accompanying consolidated statement of financial position of World Bicycle Relief, NFP and its subsidiary as of December 31, 2010, and the related consolidated statements of activities and changes in net assets, functional expenses 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 did not audit the financial statements of World Bicycle Relief - Zambia, a wholly-owned subsidiary, which statements reflect total assets and revenues constituting 24% and 39% percent of the related consolidated totals, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for World Bicycle Relief - Zambia, is based solely on the report of the other auditors.

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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of World Bicycle Relief, NFP and its subsidiary as of December 31, 2010, 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
October 20, 2011

World Bicycle Relief, NFP and its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	\$ 984,680
Receivables	326,485
Inventory	<u>395,166</u>
Total current assets	<u>1,706,331</u>
OTHER ASSETS	
Prepayments	<u>181,008</u>
FIXED ASSETS	
At cost net of accumulated depreciation of \$40,183	<u>110,919</u>
TOTAL ASSETS	<u><u>\$ 1,998,258</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable	\$ 344,310
Accrued expenses	108,065
Customer deposits	<u>32,086</u>
Total current liabilities	<u>484,461</u>
NET ASSETS	
Unrestricted	<u>1,513,797</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,998,258</u></u>

See notes to consolidated financial statements

World Bicycle Relief, NFP and its Subsidiary

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2010

Revenue and support	
Contributions and grants	\$ 2,943,006
Bicycle sales	571,015
Miscellaneous	<u>22,190</u>
Total revenue and support	<u>3,536,211</u>
Expenses	
Program services:	
Social Enterprise	1,097,662
Bicycle Education Empowerment Program (BEEP)	<u>1,472,136</u>
Total program services	<u>2,569,798</u>
Supporting services:	
Management and general	408,628
Fundraising	<u>383,950</u>
Total supporting services	<u>792,578</u>
Total expenses	<u>3,362,376</u>
Increase (decrease) in net assets	173,835
Other nonoperating changes in net assets	
Foreign exchange loss	(8,156)
Net assets - unrestricted, beginning of year	<u>1,348,118</u>
Net assets - unrestricted, end of year	<u><u>\$ 1,513,797</u></u>

See notes to consolidated financial statements

World Bicycle Relief, NFP and its Subsidiary

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended December 31, 2010

	Programs		Management and general	Fundraising	Total
	Social Enterprise	BEEP			
Functional expenses					
Cost of goods sold	\$ 397,165	\$ 532,661	\$ 8,008	\$ -	\$ 937,834
Marketing and communication	14,208	19,056	162,884	-	196,148
Product development	71,750	96,229	-	-	167,979
General and administrative	31,844	42,707	12,149	-	86,700
Tools and supplies	9,824	13,176	1,380	-	24,380
Salaries and benefits	340,581	456,773	98,311	237,194	1,132,859
Travel and transportation	71,858	96,372	20,433	17,144	205,807
Professional fees	12,060	16,175	38,007	8,735	74,977
Office rental and housing costs	69,534	93,255	-	-	162,789
Insurance	7,468	10,016	760	-	18,244
Postage and shipping fees	9,511	12,756	7,676	107	30,050
Training	9,193	12,328	-	-	21,521
Bank and credit card fees	1,669	2,239	48,342	-	52,250
Depreciation	8,253	11,068	10,678	-	29,999
Miscellaneous	42,744	57,325	-	-	100,069
Fundraising	-	-	-	120,770	120,770
Total functional expenses	<u>\$ 1,097,662</u>	<u>\$ 1,472,136</u>	<u>\$ 408,628</u>	<u>\$ 383,950</u>	<u>\$ 3,362,376</u>

See notes to consolidated financial statements

World Bicycle Relief, NFP and its Subsidiary
CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31, 2010

Cash flows from operating activities	
Increase (decrease) in net assets	\$ 173,835
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:	
Depreciation	29,999
Realized loss on investments	512
Loss on sale of equipment	3,396
Effect of exchange rate changes on cash	(8,156)
Changes in assets and liabilities:	
(Increase) decrease in:	
Receivables	262,755
Due from affiliates	44,562
Inventory	(366,030)
Prepayments	(75,108)
Increase (decrease) in:	
Accounts payable	(173,501)
Accrued expenses	73,472
Customer deposits	(87,104)
	<hr/>
Net cash used in operating activities	(121,368)
	<hr/>
Cash flows from investing activities	
Contribution of investments	(8,410)
Sale of investments	11,426
Proceeds from the sale of equipment	29,336
Purchase of equipment	(99,801)
	<hr/>
Net cash used in investing activities	(67,449)
	<hr/>
Net decrease in cash	(188,817)
	<hr/>
Cash and cash equivalents, beginning of year	1,173,497
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Cash and cash equivalents, end of year	\$ 984,680
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See notes to consolidated financial statements

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2010

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, World Bicycle Relief sells bicycles to local non-profit organizations, as well as local corporations and individuals, who are interested in bicycles that are adept to the African terrain. World Bicycle Relief believes that all of these bicycles purchased are used in a manner consistent with the mission of World Bicycle Relief.

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, a wholly owned subsidiary of World Bicycle Relief, NFP. 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

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

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 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 prepaid insurance and down payments on bicycles and bicycle parts. 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 mainly of bicycles and bicycle parts. Any purchased inventory is stated at the lower of cost or market value.

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

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, 2010. Accordingly, no provision of income taxes is included in the financial statements.

Advertising

Advertising costs are charged to operations when incurred.

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

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

Breakdown by asset class:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending balance</u>
Vehicles	\$ 61,330	\$ 73,539	\$ (41,168)	\$ 93,701
Furniture and equipment	<u>31,139</u>	<u>26,262</u>	<u>-</u>	<u>57,401</u>
Total	92,469	99,801	(41,168)	151,102
Accumulated depreciation	<u>(18,620)</u>	<u>(29,999)</u>	<u>8,436</u>	<u>(40,183)</u>
Net book value	<u>\$ 73,849</u>	<u>\$ 69,802</u>	<u>\$ (32,732)</u>	<u>\$ 110,919</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 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 - CASH AND CASH EQUIVALENTS

The Corporation maintains its cash in bank deposit accounts which; at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. The Corporation believes it is not exposed to any significant credit risk on cash.

The Corporation's broker is holding cash in a money market account in the name of the Corporation. This balance can be transferred to the Corporation's cash account at any time and is considered a cash equivalent.

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 4 - LEASE COMMITMENT

Office/Warehouse Leases

World Bicycle Relief - Zambia entered into an office lease in March 2008 through February 2010. The office lease payments started at \$1,334 in March 2008 and then increased to \$1,769 in June 2008 through February 2010.

In March 2010, World Bicycle Relief - Zambia entered into an office lease effective from March 1, 2010 through February 28, 2013 with monthly payments of \$3,500 throughout the term of the lease. This lease was terminated on August 31, 2011.

In April 2010, World Bicycle Relief - Zambia entered into a three-year warehouse and office lease effective from April 1, 2010 through February 28, 2013 with monthly payments of \$5,500 throughout the term of the lease. This lease was terminated on July 1, 2011.

In April 2011, World Bicycle Relief - Zambia entered into a three-year warehouse and office lease effective from April 12, 2011 through April 11, 2014 with monthly payments of \$3,350 for the first year, to increase by 3% for the second and third year of the lease.

Staff Leases

In March 2009, World Bicycle Relief - Zambia entered into a single year staff residential lease effective from April 1, 2009 through March 31, 2010 with monthly payments of \$1,350. On April 1, 2010, the above lease was renewed for an additional year.

Annual future minimum lease payments for office, warehouse and staff leases through December 2015 are as follows:

	<u>Office/ Warehouse</u>	<u>Staff</u>	<u>Total</u>
2011	\$ 91,150	\$ 4,050	\$ 95,200
2012	31,059	-	31,059
2013	41,412	-	41,412
2014	13,804	-	13,804
2015	-	-	-

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NOTE 5 - IN-KIND DONATIONS

The Corporation receives office space including utilities and reimbursement of payroll and other expenses from SRAM, LLC and has recognized these events as contribution revenue and related expenses. For the year ended December 31, 2010, the total value of services received totaled \$267,244.

NOTE 6 - INVESTMENTS

Investment activity through year end December 31, 2010 is as follows:

	Fair market value December 31, 2009	Transfer in/(out), net	Purchases/ (sale), net	Realized gain/(loss)	Unrealized gain/(loss)	Fair market value December 31, 2010	Carrying value
Stocks	\$ 3,528	\$ -	\$ (4,040)	\$ 512	\$ -	\$ -	\$ -
Total	\$ 3,528	\$ -	\$ (4,040)	\$ 512	\$ -	\$ -	\$ -

Investments consisted of publicly traded equity securities that were 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. All investments were sold during 2010. As of December 31, 2010, the Corporation does not hold any investments.

NOTE 7 - FAIR VALUE

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Corporation considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

The accounting guidance for fair value measurement also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities, securities and listed derivatives.

Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.

Level III - Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Corporation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

As of December 31, 2010, no assets or liabilities are measured at fair value under this provision.

NOTE 8 - 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.

On January 1, 2011, management elected to combine the operations World Bicycle Relief - Kenya and World Bicycle Relief - Zimbabwe with the operations of World Bicycle Relief,

World Bicycle Relief, NFP and its Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2010

NFP. This transaction does not have any effect on the World Bicycle Relief financial statements as of December 31, 2010.

Management evaluated the activity of the Corporation through October 20, 2011 (the date the financial statements were issued) and concluded that, except for the item noted above, 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, NFP and its Subsidiary

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

December 31, 2010

ASSETS

	World Bicycle Relief, NFP	World Bicycle Relief - Zambia	Eliminations	Consolidated
CURRENT ASSETS				
Cash and cash equivalents	\$ 860,213	\$ 124,467	\$ -	\$ 984,680
Receivables	259,082	67,403	-	326,485
Due from affiliates	1,591,833	-	(1,591,833)	-
Inventory	20,644	374,522	-	395,166
	<u>2,731,772</u>	<u>566,392</u>	<u>(1,591,833)</u>	<u>1,706,331</u>
Total current assets				
OTHER ASSETS				
Prepayments	-	181,008	-	181,008
	<u>-</u>	<u>181,008</u>	<u>-</u>	<u>181,008</u>
FIXED ASSETS				
At cost net of accumulated depreciation of \$40,183	29,290	81,629	-	110,919
	<u>29,290</u>	<u>81,629</u>	<u>-</u>	<u>110,919</u>
TOTAL ASSETS	<u>\$ 2,761,062</u>	<u>\$ 829,029</u>	<u>\$ (1,591,833)</u>	<u>\$ 1,998,258</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES				
Accounts payable	\$ 322,228	\$ 22,082	\$ -	\$ 344,310
Accrued expenses	23,439	84,626	-	108,065
Due to affiliates	-	1,591,833	(1,591,833)	-
Customer deposits	-	32,086	-	32,086
	<u>345,667</u>	<u>1,730,627</u>	<u>(1,591,833)</u>	<u>484,461</u>
Total current liabilities				
NET ASSETS				
Unrestricted	2,415,395	(901,598)	-	1,513,797
	<u>2,415,395</u>	<u>(901,598)</u>	<u>-</u>	<u>1,513,797</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,761,062</u>	<u>\$ 829,029</u>	<u>\$ (1,591,833)</u>	<u>\$ 1,998,258</u>

World Bicycle Relief, NFP and its Subsidiary

CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended December 31, 2010

	World Bicycle Relief, NFP	World Bicycle Relief - Zambia	Eliminations	Consolidated
Revenue and support				
Contributions and grants	\$ 2,147,208	\$ 795,798	\$ -	\$ 2,943,006
Bicycle sales	-	571,015	-	571,015
Miscellaneous income	7,722	14,468	-	22,190
Total revenue and support	2,154,930	1,381,281	-	3,536,211
Expenses				
Program services:				
Social Enterprise Bicycle Education Empowerment Program (BEEP)	293,432	804,230	-	1,097,662
	393,538	1,078,598	-	1,472,136
Total program services	686,970	1,882,828	-	2,569,798
Supporting services:				
Management and general Fundraising	408,628	-	-	408,628
	383,950	-	-	383,950
Total supporting services	792,578	-	-	792,578
Total expenses	1,479,548	1,882,828	-	3,362,376
Increase (decrease) in net assets	675,382	(501,547)	-	173,835
Other nonoperating changes in net assets				
Foreign exchange loss	-	(8,156)	-	(8,156)
Net assets, beginning of year	1,740,013	(391,895)	-	1,348,118
Net assets, end of year	\$ 2,415,395	\$ (901,598)	\$ -	\$ 1,513,797