

**GRAYWOLF PRESS**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

**GRAYWOLF PRESS  
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YEARS ENDED DECEMBER 31, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Graywolf Press  
Minneapolis, Minnesota

We have audited the accompanying financial statements of Graywolf Press, which comprise the balance sheets as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, functional expense, and cash flows 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 accounting principles generally accepted in the United States of America; this includes 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.

### ***Auditors' 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 audit 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 auditors' 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.

Board of Directors  
Graywolf Press

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graywolf Press as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
March 20, 2017

**GRAYWOLF PRESS  
BALANCE SHEETS  
DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,252,910	\$ 1,286,540
Accounts Receivable - Net	573,417	494,132
Grants Receivable	134,634	185,040
Short Term Pledges Receivable	49,990	82,225
Prepaid Expense	50,766	36,978
Royalty Advances	354,202	295,942
Inventory - Net	462,428	377,046
Total Current Assets	2,878,347	2,757,903
Long-Term Pledges Receivable	-	16,760
Investments	101,561	101,312
Property and Equipment - Net	13,139	14,272
Total Assets	\$ 2,993,047	\$ 2,890,247
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 36,483	\$ 54,502
Accrued Expense	4,607	4,416
Royalty Payable	251,655	311,401
Deferred Sales Revenue	362,960	380,348
Total Current Liabilities	655,705	750,667
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	770,892	759,999
Board Designated	1,249,000	1,005,000
Temporarily Restricted	217,450	274,581
Permanently Restricted	100,000	100,000
Total Net Assets	2,337,342	2,139,580
Total Liabilities and Net Assets	\$ 2,993,047	\$ 2,890,247

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016					Total
	Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>						
Contributions	\$ 609,847	\$ -	\$ 609,847	\$ 37,664	\$ -	\$ 647,511
Grants from Governmental Agencies	-	-	-	216,929	-	216,929
Book Revenue - Net of Returns	2,806,605	-	2,806,605	-	-	2,806,605
Special Event Income (Net of Expense of \$18,122 and \$0 in 2016 and 2015, Respectively)	8,968	-	8,968	-	-	8,968
Rights Revenue	79,618	-	79,618	-	-	79,618
Investment Income	-	-	-	249	-	249
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	93,500	-	93,500	(93,500)	-	-
Satisfaction of Time Restrictions	218,473	-	218,473	(218,473)	-	-
Total Support and Revenue	<u>3,817,011</u>	<u>-</u>	<u>3,817,011</u>	<u>(57,131)</u>	<u>-</u>	<u>3,759,880</u>
<b>EXPENSE</b>						
Program Services:						
Editorial Services	562,511	-	562,511	-	-	562,511
Cost of Sales	1,832,176	-	1,832,176	-	-	1,832,176
Promotion and Marketing Services	758,673	-	758,673	-	-	758,673
Total Program Services	<u>3,153,360</u>	<u>-</u>	<u>3,153,360</u>	<u>-</u>	<u>-</u>	<u>3,153,360</u>
Support Services:						
Management and General	164,898	-	164,898	-	-	164,898
Development	243,860	-	243,860	-	-	243,860
Total Support Services	<u>408,758</u>	<u>-</u>	<u>408,758</u>	<u>-</u>	<u>-</u>	<u>408,758</u>
Total Expense	<u>3,562,118</u>	<u>-</u>	<u>3,562,118</u>	<u>-</u>	<u>-</u>	<u>3,562,118</u>
<b>CHANGE IN NET ASSETS BEFORE TRANSFERS</b>	254,893	-	254,893	(57,131)	-	197,762
<b>TRANSFER OF DESIGNATED FUNDS</b>	<u>(244,000)</u>	<u>244,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>CHANGE IN NET ASSETS AFTER TRANSFERS</b>	10,893	244,000	254,893	(57,131)	-	197,762
Net Assets - Beginning of Year	<u>759,999</u>	<u>1,005,000</u>	<u>1,764,999</u>	<u>274,581</u>	<u>100,000</u>	<u>2,139,580</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 770,892</u>	<u>\$ 1,249,000</u>	<u>\$ 2,019,892</u>	<u>\$ 217,450</u>	<u>\$ 100,000</u>	<u>\$ 2,337,342</u>

See accompanying Notes to Financial Statements.

2015

Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 610,306	\$ -	\$ 610,306	\$ 88,104	\$ -	\$ 698,410
-	-	-	199,130	-	199,130
2,807,443	-	2,807,443	-	-	2,807,443
-	-	-	-	-	-
87,083	-	87,083	-	-	87,083
-	-	-	248	-	248
70,000	-	70,000	(70,000)	-	-
736,070	-	736,070	(736,070)	-	-
4,310,902	-	4,310,902	(518,588)	-	3,792,314
527,905	-	527,905	-	-	527,905
2,052,798	-	2,052,798	-	-	2,052,798
545,769	-	545,769	-	-	545,769
3,126,472	-	3,126,472	-	-	3,126,472
229,381	-	229,381	-	-	229,381
202,954	-	202,954	-	-	202,954
432,335	-	432,335	-	-	432,335
3,558,807	-	3,558,807	-	-	3,558,807
752,095	-	752,095	(518,588)	-	233,507
(745,000)	745,000	-	-	-	-
7,095	745,000	752,095	(518,588)	-	233,507
752,904	260,000	1,012,904	793,169	100,000	1,906,073
<u>\$ 759,999</u>	<u>\$ 1,005,000</u>	<u>\$ 1,764,999</u>	<u>\$ 274,581</u>	<u>\$ 100,000</u>	<u>\$ 2,139,580</u>

**GRAYWOLF PRESS**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
**DECEMBER 31, 2016**

2016

	Program Services			Support Services			Total All Services	
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development		Total Support Services
Salaries	\$ 324,708	\$ -	\$ 246,729	\$ 571,437	\$ 106,368	\$ 104,174	\$ 210,542	\$ 781,979
Employee Benefits	49,928	-	37,937	87,865	16,355	16,018	32,373	120,238
Payroll Taxes	23,993	-	18,231	42,224	7,860	7,698	15,558	57,782
Total Personnel Costs	398,629	-	302,897	701,526	130,583	127,890	258,473	959,999
Cost of Goods Sold	-	692,741	-	692,741	-	-	-	692,741
Royalty Expense	-	495,891	-	495,891	-	-	-	495,891
Distribution Fees	-	643,544	-	643,544	-	-	-	643,544
Contract Services	37,747	-	72,421	110,168	1,986	47,956	49,942	160,110
Promotion Expense	-	-	143,765	143,765	-	11,961	11,961	155,726
Donor Recognition	-	-	-	-	-	7,818	7,818	7,818
Postage	20,068	-	63,351	83,419	738	5,704	6,442	89,861
Occupancy	21,920	-	16,656	38,576	7,181	7,033	14,214	52,790
Advertising and Commissions	-	-	60,510	60,510	9,618	-	9,618	70,128
Meetings and Entertainment	7,684	-	3,423	11,107	591	3,718	4,309	15,416
Dues and Subscriptions	2,399	-	6,321	8,720	-	6,927	6,927	15,647
Office Supplies	9,719	-	7,385	17,104	3,172	3,118	6,290	23,394
Travel	28,164	-	939	29,103	-	7,479	7,479	36,582
Complimentary Copies	-	-	27,293	27,293	-	-	-	27,293
Catalog Expense	-	-	19,021	19,021	-	-	-	19,021
Award Submissions	-	-	6,591	6,591	-	-	-	6,591
Telephone and Internet	6,951	-	5,282	12,233	2,278	2,230	4,508	16,741
Audit	6,489	-	4,931	11,420	2,126	2,082	4,208	15,628
Insurance	9,707	-	7,376	17,083	3,180	3,114	6,294	23,377
Bank Fees	3,202	-	2,433	5,635	1,050	1,027	2,077	7,712
Printing and Copying	3,451	-	2,622	6,073	1,132	1,107	2,239	8,312
Website/Database	2,596	-	1,972	4,568	852	833	1,685	6,253
Special Event	-	-	-	-	-	3,461	3,461	3,461
Depreciation	3,785	-	3,484	7,269	411	402	813	8,082
Total Expense	\$ 562,511	\$ 1,832,176	\$ 758,673	\$ 3,153,360	\$ 164,898	\$ 243,860	\$ 408,758	\$ 3,562,118

See accompanying Notes to Financial Statements.



**GRAYWOLF PRESS**  
**STATEMENT OF FUNCTIONAL EXPENSE**  
**DECEMBER 31, 2015**

	2015							
	Program Services				Support Services			
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development	Total Support Services	Total All Services
Salaries	\$ 291,938	\$ -	\$ 196,730	\$ 488,668	\$ 119,219	\$ 94,219	\$ 213,438	\$ 702,106
Employee Benefits	41,954	-	28,272	70,226	17,133	13,540	30,673	100,899
Payroll Taxes	21,555	-	14,525	36,080	8,802	6,957	15,759	51,839
Total Personnel Costs	<u>355,447</u>	<u>-</u>	<u>239,527</u>	<u>594,974</u>	<u>145,154</u>	<u>114,716</u>	<u>259,870</u>	<u>854,844</u>
Cost of Goods Sold	-	776,922	-	776,922	-	-	-	776,922
Royalty Expense	-	615,256	-	615,256	-	-	-	615,256
Distribution Fees	-	639,520	-	639,520	-	-	-	639,520
Contract Services	26,060	-	36,069	62,129	1,978	23,693	25,671	87,800
Promotion Expense	-	-	104,564	104,564	-	13,183	13,183	117,747
Donor Recognition	-	-	-	-	-	9,915	9,915	9,915
Postage	16,827	-	51,189	68,016	540	5,217	5,757	73,773
Occupancy	20,767	-	13,995	34,762	8,481	6,702	15,183	49,945
Advertising and Commissions	-	21,100	-	21,100	55,695	-	55,695	76,795
Meetings and Entertainment	8,126	-	2,710	10,836	1,033	4,671	5,704	16,540
Dues and Subscriptions	4,512	-	5,748	10,260	-	2,908	2,908	13,168
Office Supplies	9,965	-	6,715	16,680	4,068	3,216	7,284	23,964
Travel	30,579	-	2,436	33,015	-	3,173	3,173	36,188
Complimentary Copies	-	-	22,061	22,061	-	-	-	22,061
Catalog Expense	-	-	9,492	9,492	-	-	-	9,492
Award Submissions	-	-	5,569	5,569	-	-	-	5,569
Telephone and Internet	7,287	-	4,910	12,197	2,975	2,351	5,326	17,523
Audit	6,002	-	4,045	10,047	2,451	1,937	4,388	14,435
Insurance	9,164	-	6,176	15,340	3,742	2,958	6,700	22,040
Bank Fees	2,325	-	1,567	3,892	950	751	1,701	5,593
Printing and Copying	2,943	-	1,983	4,926	1,202	950	2,152	7,078
Website/Database	6,507	-	6,263	12,770	306	242	548	13,318
Special Event	-	-	-	-	-	5,734	5,734	5,734
Depreciation	21,394	-	20,750	42,144	806	637	1,443	43,587
Total Expense	<u>\$ 527,905</u>	<u>\$ 2,052,798</u>	<u>\$ 545,769</u>	<u>\$ 3,126,472</u>	<u>\$ 229,381</u>	<u>\$ 202,954</u>	<u>\$ 432,335</u>	<u>\$ 3,558,807</u>

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 197,762	\$ 233,507
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	8,082	43,587
Change in Royalty Advances Reserve	(59,746)	118,350
Change in Sales Return Reserve	(17,388)	(8,894)
Change in Reserve for Obsolete Inventory	115,109	148,913
(Increases) Decreases in Current Assets:		
Accounts Receivable	(79,285)	90,150
Pledges Receivable	48,995	15,875
Grants Receivable	50,406	(91,100)
Royalty Advances	(58,260)	13,073
Inventory	(200,491)	(87,521)
Prepaid Expense	(13,788)	(2,577)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	(18,019)	10,092
Accrued Salaries Payable	191	3,222
Net Cash Provided (Used) by Operating Activities	(26,432)	486,677
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Short-Term Investments	(249)	(248)
Purchase of Equipment	(6,949)	(4,718)
Net Cash Used by Investing Activities	(7,198)	(4,966)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(33,630)	481,711
Cash and Cash Equivalents - Beginning of Year	1,286,540	804,829
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 1,252,910	\$ 1,286,540

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organizational Purpose**

Graywolf Press (Graywolf) is a leading independent publisher committed to the discovery and energetic publication of contemporary American and international literature. We champion outstanding writers at all stages of their careers to ensure that diverse voices can be heard in a crowded marketplace. We believe books that nourish the individual spirit and enrich the broader culture must be supported by attentive editing, superior design, and creative promotion.

Founded in 1974, Graywolf publishes between thirty and thirty-five books, divided equally across poetry, fiction, and literary nonfiction annually. As one of the nation's leading nonprofits, Graywolf brings that work to the widest possible audience.

In 2016, Graywolf published thirty-three books, reached about 485,000 readers, and achieved \$2.81 million in sales. The Graywolf website drew 229,500 visitors. Our books and authors were honored in many ways, helping to achieve our mission of bringing diverse contemporary literature to a wide audience. End-of-year "best of" lists included 24 Graywolf titles that were cited 146 times by 62 different venues. The *New York Times* named 3 Graywolf titles to its list of 100 Notable Books of 2016, including *All That Man Is* by David Szalay, *Grief Is the Thing with Feathers* by Max Porter, and *Look* by Solmaz Sharif. *Citizen* by Claudia Rankine was one of twenty-eight titles selected for the NEA's Big Read program. Graywolf was the subject of profiles by *Minneapolis-St. Paul Magazine* and PBS NewsHour.

**Financial Statement Presentation**

Net assets, revenues, gains, and losses are classified based on donor imposed restrictions. Accordingly, net assets of Graywolf and changes therein are classified and reported as:

**Unrestricted – Undesignated Net Assets**

Resources over which the board of directors has discretionary control.

**Unrestricted – Board Designated Net Assets**

Resources over which the board of directors has discretionary control and has set aside for a particular purpose.

**Temporarily Restricted Net Assets**

Those resources subject to donor imposed restrictions which will be satisfied by action of Graywolf or passage of time.

**Permanently Restricted Net Assets**

Those resources whose use has been permanently restricted by the donor.

**GRAYWOLF PRESS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Cash and Cash Equivalents**

Graywolf defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. At December 31, 2016 and 2015, Graywolf held funds at a local financial institution in excess of federally insured limits.

**Receivables**

Accounts, grants, and contributions receivable are stated at net realizable value. Bad debts are provided on the reserve method based on historical experience and management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2016 and 2015, the allowance for accounts receivable was \$-0-. See Note 3 for allowance related to pledges receivable.

**Inventory**

Inventory consists of published books and books in the process of being published. Inventory is valued at lower of cost, determined on a first-in, first-out basis or market. A reserve for obsolete inventory has been recorded for books that may be unsaleable based on historical data. The reserve for obsolescence was \$990,755 and \$875,646 at December 31, 2016 and 2015, respectively.

**Royalty Advances**

Graywolf provides authors with royalty advances against future book sales. These advances are then expensed when the authors' books are published. Royalty advances were \$354,202 and \$295,942 at December 31, 2016 and 2015, respectively.

**Property and Equipment**

All major expenditures for property and equipment \$2,000 and above are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives as follows:

Buildings and Improvements	30 Years
Furnishings and Equipment	5 – 10 Years
Computer Equipment, Software, and Websites	3 Years

**Deferred Sales Revenue**

Sales of books are subject to significant returns. The returns less related return to inventory of the books has been estimated upon historical return rates. The net effect of the sales return estimate is classified as the liability, Deferred Sales Revenue. The deferred sales revenue liability was \$362,960 and \$380,348 as of December 31, 2016 and 2015, respectively.

**GRAYWOLF PRESS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Contributions**

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as Net Assets Released from Restrictions.

Unconditional pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**In-Kind Contributions**

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Graywolf. Donated materials are valued at market value on the date of donation.

**Government Grants and Contracts**

Government grants and contract funds are recorded as temporarily restricted revenue when received. Restrictions are released as funds are spent in accordance with the contract. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Graywolf will record such disallowance at the time the final assessment is made.

**Fair Value Measurements**

Graywolf has categorized its financial instruments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (*Level 1*) and the lowest priority to unobservable inputs (*Level 3*). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Graywolf has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

**GRAYWOLF PRESS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. *Level 2* inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in non-active markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments).

**Functional Allocation of Expense**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management.

**Income Tax**

Graywolf has a tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. Graywolf's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. Graywolf continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the Internal Revenue Code and charitable contributions by donors are tax deductible.

**Advertising**

Graywolf uses advertising, both print/online advertising and cooperative advertising at bookstores, to promote its books to readers. Advertising costs are expensed as incurred. Advertising expense of \$87,682 and \$102,936 was recorded for the years ended December 31, 2016 and 2015, respectively.

**GRAYWOLF PRESS**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Shipping and Handling Costs**

Shipping and handling costs are charged to operations as they are incurred. Shipping and handling expense was \$83,891 and \$72,221 for the years ended December 31, 2016 and 2015, respectively.

**Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**Subsequent Events**

Graywolf has evaluated the effect that subsequent events would have on the financial statements through March 20, 2017, which is the date financial statements were available to be issued.

**NOTE 2 SIGNIFICANT CONCENTRATIONS OF CREDIT RISK**

Graywolf markets their publications internationally. The amounts due for book sales and grants and contributions are from individuals or organizations located across the world. In addition, accounts, grants and pledges receivable are from individuals and organizations.

Graywolf contracts with Farrar, Straus, & Giroux, LLC (FSG) as its primary distributor. FSG provides representation, sales, billing, shipping, customer service, collection and processing of returns. Some of these services provided by FSG are based upon a percentage of sales, currently at 21% on new book sales and 4.5% on returns. In 2016, 97% of sales were made through FSG and accounts receivable of \$572,461 was due from FSG at December 31, 2016. In 2015, 97% of sales were made through FSG and accounts receivable of \$491,676 was due from FSG at December 31, 2015.

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**NOTE 3 PLEDGES RECEIVABLE**

The balance of pledges receivable was due as follows as of:

<u>Year Ending December 31,</u>	<u>2016</u>	<u>2015</u>
2017	\$ 49,990	\$ 82,225
2018	-	17,500
Total Pledges Receivable	<u>49,990</u>	<u>99,725</u>
Discounted to Net Present Value at 4.0%	-	(740)
Net Pledges Receivable	<u>49,990</u>	<u>98,985</u>
Current Portion	<u>49,990</u>	<u>82,225</u>
Long-Term Portion	<u>\$ -</u>	<u>\$ 16,760</u>

Allowance for doubtful pledges was based on management's evaluation of outstanding pledges receivable at the end of the year. As of December 31, 2016 and 2015, no allowance was deemed necessary.

**NOTE 4 INVESTMENTS**

Graywolf held the following investments as of December 31:

	<u>2016</u>		<u>2015</u>	
	Market	Cost	Market	Cost
Certificates of Deposit	<u>\$ 101,561</u>	<u>\$ 101,561</u>	<u>\$ 101,312</u>	<u>\$ 101,312</u>

Investment income from certificates of deposit was \$249 in 2016 and \$248 in 2015.

**NOTE 5 PROPERTY AND EQUIPMENT**

Graywolf owned the following assets as of December 31:

	<u>2016</u>	<u>2015</u>
Furniture and Equipment	\$ 78,548	\$ 78,548
Leasehold Improvements	85,995	85,995
Database and Website	<u>146,482</u>	<u>139,533</u>
	311,025	304,076
Less: Accumulated Depreciation	<u>(297,886)</u>	<u>(289,804)</u>
Total Equipment	<u>\$ 13,139</u>	<u>\$ 14,272</u>

Depreciation expense of \$8,082 and \$43,587 was recorded for the years ended December 31, 2016 and 2015, respectively.



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**NOTE 6 LINE OF CREDIT**

Graywolf secured a revolving line of credit for \$250,000 which expires on October 12, 2017 and is secured by all inventory, accounts, equipment and general intangibles of Graywolf. The interest rate is a variable rate that ties to *The Wall Street Journal* prime rate which, at December 31, 2016, was 4.5%. There was no outstanding balance on the line of credit as of December 31, 2016 or 2015.

**NOTE 7 UNRESTRICTED BOARD DESIGNATED NET ASSETS**

Unrestricted board designated net assets consisted of the following as of December 31:

	2016	2015
Next Page Campaign	\$ 1,249,000	\$ 1,005,000

**NOTE 8 TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following as of December 31:

	2016	2015
Restricted for Time:		
Next Page Campaign	\$ 19,500	\$ 39,600
Time Restricted Organizational Support	67,451	143,669
Restricted for Purpose:		
Support of Specified Titles	129,000	90,000
Endowment Earnings	1,499	1,312
Total	\$ 217,450	\$ 274,581

**NOTE 9 PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted funds are donor restricted to be held in perpetuity with the income and related investment gains to be used for the Graywolf Press Nonfiction Prize.

Permanently restricted net assets consisted of the following December 31:

	2016	2015
Keller Fund	\$ 100,000	\$ 100,000

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**NOTE 10 ENDOWMENT FUNDS**

**Description**

Endowment funds consist of permanently restricted and board designated funds established for the following purposes:

Permanently restricted funds are donor restricted to be held in perpetuity with the income and related investment gains to be used for purposes specified by the donor.

Funds designated by the board of directors to function as endowments are held at the discretion of the board of directors with the income and investment gains to be used for specific purposes as designated by the board of directors. Graywolf has no board-designated endowment funds as of December 31, 2016 and 2015.

As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the board of directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of Relevant Law**

The board of directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift, as of the gift date, of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Graywolf classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by Graywolf in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Graywolf considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of Graywolf and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of Graywolf
7. The investment policies of Graywolf

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**NOTE 10 ENDOWMENT FUNDS (CONTINUED)**

**Endowment Net Asset Composition by Type of Fund**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2016				
Donor Restricted	<u>\$ -</u>	<u>\$ 1,561</u>	<u>\$ 100,000</u>	<u>\$ 101,561</u>
December 31, 2015				
Donor Restricted	<u>\$ -</u>	<u>\$ 1,312</u>	<u>\$ 100,000</u>	<u>\$ 101,312</u>

**Changes in Endowment Net Assets**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2014	\$ -	\$ 1,064	\$ 100,000	\$ 101,064
Investment Return:				
Investment Income	-	248	-	248
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	248	100,000	101,312
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2015	-	1,312	100,000	101,312
Investment Return:				
Investment Income	-	249	-	249
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	249	-	249
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2016	<u>\$ -</u>	<u>\$ 1,561</u>	<u>\$ 100,000</u>	<u>\$ 101,561</u>

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**NOTE 11 COST OF GOODS SOLD**

The reconciliation of cost of goods sold was as follows:

	<u>2016</u>	<u>2015</u>
Beginning Inventory	\$ 377,046	\$ 438,438
Production Cost	830,151	717,617
Other Cost of Sales and Adjustments	<u>(52,028)</u>	<u>(2,087)</u>
Goods Available for Sale	1,155,169	1,153,968
Less: Ending Inventory	<u>462,428</u>	<u>377,046</u>
Cost of Goods Sold	<u><u>\$ 692,741</u></u>	<u><u>\$ 776,922</u></u>

**NOTE 12 LEASED FACILITIES AND EQUIPMENT**

Rental commitments under non-cancelable leases for office space and equipment in effect at December 31, 2016, totaled \$133,652. The lease of the Minneapolis, Minneapolis office is for a term of 60 months, expiring June 30, 2021. The future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 30,048
2018	30,473
2019	28,259
2020	29,531
2021	15,341
Total	<u><u>\$ 133,652</u></u>

Rental expense of \$61,102 and \$57,022 as recorded for the years ended December 31, 2016 and 2015, respectively.

**NOTE 13 RETIREMENT PLAN**

Graywolf has a 403(b) tax deferred annuity plan. Employees are eligible for a pension contribution equal to 5% of their salary upon completion of one year of service for the years ended December 31, 2016 and 2015. Retirement expense of \$31,543 and \$30,217 was recorded for the years ended December 31, 2016 and 2015, respectively.

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**NOTE 14 COMMITMENTS**

The Organization, in the normal course of business, provides advances to authors for future publications. The amount due for future advances remaining on author contracts at December 31, 2016 is \$191,789.

**NOTE 15 RELATED PARTY TRANSACTIONS**

Contribution revenues from members of the board of directors, national council, and employees totaled \$303,537 and \$226,045 during the years ended December 31, 2016 and 2015, respectively. Board member contributions receivable as of December 31, 2016 and 2015 were \$33,500 and \$63,160, respectively.