

GRAYWOLF PRESS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

**GRAYWOLF PRESS
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YEARS ENDED DECEMBER 31, 2017 AND 2016**

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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, 2017 and 2016, 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, 2017 and 2016, 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
April 2, 2018

**GRAYWOLF PRESS
BALANCE SHEETS
DECEMBER 31, 2017 AND 2016**

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,420,436	\$ 1,252,910
Accounts Receivable, Net	913,107	573,417
Grants Receivable	235,913	134,634
Short-Term Pledges Receivable	148,175	49,990
Prepaid Expense	51,327	50,766
Royalty Advances	538,208	354,202
Inventory - Net	<u>462,339</u>	<u>462,428</u>
Total Current Assets	3,769,505	2,878,347
Long-Term Pledges Receivable	211,709	-
Investments	-	101,561
Property and Equipment, Net	<u>28,439</u>	<u>13,139</u>
Total Assets	<u>\$ 4,009,653</u>	<u>\$ 2,993,047</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 54,136	\$ 36,483
Accrued Expense	1,732	4,607
Royalty Payable	370,572	251,655
Deferred Sales Revenue	<u>438,308</u>	<u>362,960</u>
Total Current Liabilities	864,748	655,705
NET ASSETS		
Unrestricted:		
Undesignated	782,097	770,892
Board Designated	1,637,000	1,249,000
Temporarily Restricted	625,808	217,450
Permanently Restricted	<u>100,000</u>	<u>100,000</u>
Total Net Assets	<u>3,144,905</u>	<u>2,337,342</u>
Total Liabilities and Net Assets	<u>\$ 4,009,653</u>	<u>\$ 2,993,047</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017					Total
	Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE						
Contributions	\$ 878,698	\$ -	\$ 878,698	\$ 480,709	\$ -	\$ 1,359,407
Grants from Governmental Agencies	-	-	-	186,576	-	186,576
Book Revenue - Net of Returns	3,307,713	-	3,307,713	-	-	3,307,713
Special Event Income (Net of Expense of \$27,302 and \$18,122 in 2017 and 2016, Respectively)	19,712	-	19,712	-	-	19,712
Rights Revenue	91,527	-	91,527	-	-	91,527
Investment Income	-	-	-	251	-	251
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	105,500	-	105,500	(105,500)	-	-
Satisfaction of Time Restrictions	153,678	-	153,678	(153,678)	-	-
Total Support and Revenue	<u>4,556,828</u>	<u>-</u>	<u>4,556,828</u>	<u>408,358</u>	<u>-</u>	<u>4,965,186</u>
EXPENSE						
Program Services:						
Editorial Services	620,105	-	620,105	-	-	620,105
Cost of Sales	2,306,786	-	2,306,786	-	-	2,306,786
Promotion and Marketing Services	736,013	-	736,013	-	-	736,013
Total Program Services	<u>3,662,904</u>	<u>-</u>	<u>3,662,904</u>	<u>-</u>	<u>-</u>	<u>3,662,904</u>
Support Services:						
Management and General	167,011	-	167,011	-	-	167,011
Development	327,708	-	327,708	-	-	327,708
Total Support Services	<u>494,719</u>	<u>-</u>	<u>494,719</u>	<u>-</u>	<u>-</u>	<u>494,719</u>
Total Expense	<u>4,157,623</u>	<u>-</u>	<u>4,157,623</u>	<u>-</u>	<u>-</u>	<u>4,157,623</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	399,205	-	399,205	408,358	-	807,563
TRANSFER OF DESIGNATED FUNDS	<u>(388,000)</u>	<u>388,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AFTER TRANSFERS	11,205	388,000	399,205	408,358	-	807,563
Net Assets - Beginning of Year	<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>
NET ASSETS - END OF YEAR	<u>\$ 782,097</u>	<u>\$ 1,637,000</u>	<u>\$ 2,419,097</u>	<u>\$ 625,808</u>	<u>\$ 100,000</u>	<u>\$ 3,144,905</u>

See accompanying Notes to Financial Statements.

2016

Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 609,847	\$ -	\$ 609,847	\$ 37,664	\$ -	\$ 647,511
-	-	-	216,929	-	216,929
2,806,605	-	2,806,605	-	-	2,806,605
8,968	-	8,968	-	-	8,968
79,618	-	79,618	-	-	79,618
-	-	-	249	-	249
93,500	-	93,500	(93,500)	-	-
218,473	-	218,473	(218,473)	-	-
3,817,011	-	3,817,011	(57,131)	-	3,759,880
562,511	-	562,511	-	-	562,511
1,832,176	-	1,832,176	-	-	1,832,176
758,673	-	758,673	-	-	758,673
3,153,360	-	3,153,360	-	-	3,153,360
164,898	-	164,898	-	-	164,898
243,860	-	243,860	-	-	243,860
408,758	-	408,758	-	-	408,758
3,562,118	-	3,562,118	-	-	3,562,118
254,893	-	254,893	(57,131)	-	197,762
(244,000)	244,000	-	-	-	-
10,893	244,000	254,893	(57,131)	-	197,762
759,999	1,005,000	1,764,999	274,581	100,000	2,139,580
<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>

GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
DECEMBER 31, 2017

2017

	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	\$ 379,779	\$ -	\$ 323,997	\$ 703,776	\$ 88,514	\$ 143,067	\$ 231,581	\$ 935,357
Employee Benefits	58,474	-	52,045	110,519	14,218	22,982	37,200	147,719
Payroll Taxes	26,853	-	23,901	50,754	6,530	10,554	17,084	67,838
Total Personnel Costs	465,106	-	399,943	865,049	109,262	176,603	285,865	1,150,914
Cost of Goods Sold	-	824,811	-	824,811	-	-	-	824,811
Royalty Expense	-	653,393	-	653,393	-	-	-	653,393
Distribution Fees	-	782,859	-	782,859	-	-	-	782,859
Contract Services	26,821	-	19,052	45,873	1,927	50,951	52,878	98,751
Promotion Expense	-	-	127,299	127,299	-	16,262	16,262	143,561
Donor Recognition	-	-	-	-	-	23,642	23,642	23,642
Postage	17,814	-	56,803	74,617	535	11,354	11,889	86,506
Occupancy	22,534	-	20,057	42,591	5,479	8,856	14,335	56,926
Advertising and Commissions	-	45,723	-	45,723	38,219	-	38,219	83,942
Meetings and Entertainment	6,446	-	6,076	12,522	347	6,486	6,833	19,355
Dues and Subscriptions	4,135	-	7,391	11,526	-	6,647	6,647	18,173
Office Supplies	10,723	-	9,544	20,267	2,623	4,215	6,838	27,105
Travel	29,913	-	6,574	36,487	-	6,179	6,179	42,666
Complimentary Copies	-	-	27,070	27,070	-	-	-	27,070
Catalog Expense	-	-	13,853	13,853	-	-	-	13,853
Award Submissions	-	-	9,408	9,408	-	-	-	9,408
Telephone and Internet	6,646	-	5,915	12,561	1,616	2,612	4,228	16,789
Audit	6,681	-	5,947	12,628	1,625	2,626	4,251	16,879
Insurance	11,125	-	9,902	21,027	2,705	4,373	7,078	28,105
Bank Fees	2,864	-	2,549	5,413	696	1,126	1,822	7,235
Printing and Copying	3,463	-	3,083	6,546	841	1,361	2,202	8,748
Website/Database	3,223	-	3,223	6,446	-	-	-	6,446
Special Event	-	-	-	-	-	3,389	3,389	3,389
Bad Debt Expense	-	-	-	-	500	-	500	500
Depreciation	2,611	-	2,324	4,935	636	1,026	1,662	6,597
Total Expense	\$ 620,105	\$ 2,306,786	\$ 736,013	\$ 3,662,904	\$ 167,011	\$ 327,708	\$ 494,719	\$ 4,157,623

See accompanying Notes to Financial Statements.

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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 807,563	\$ 197,762
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	6,597	8,082
Change in Royalty Advances Reserve	118,917	(59,746)
Change in Sales Return Reserve	75,348	(17,388)
Change in Reserve for Obsolete Inventory	73,021	115,109
(Increase) Decrease in Current Assets:		
Accounts Receivable	(339,690)	(79,285)
Pledges Receivable	(309,894)	48,995
Grants Receivable	(101,279)	50,406
Royalty Advances	(184,006)	(58,260)
Inventory	(72,932)	(200,491)
Prepaid Expense	(561)	(13,788)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	17,653	(18,019)
Accrued Salaries Payable	(2,875)	191
Net Cash Provided (Used) by Operating Activities	87,862	(26,432)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Short-Term Investments	-	(249)
Proceeds from Sale of Investments	101,561	-
Purchase of Equipment	(21,897)	(6,949)
Net Cash Provided (Used) by Investing Activities	79,664	(7,198)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	167,526	(33,630)
Cash and Cash Equivalents - Beginning of Year	1,252,910	1,286,540
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,420,436	\$ 1,252,910

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 twenty-first century American and international literature. We champion outstanding writers at all stages of their careers to ensure that adventurous readers can find underrepresented and diverse voices in a crowded marketplace. We believe works of literature nourish the reader's spirit and enrich the broader culture, and that they must be supported by attentive editing, compelling design, and creative promotion.

Founded in 1974, Graywolf publishes between thirty and thirty-five books each year, divided equally across poetry, fiction, and nonfiction. We are known for supporting both emerging and established writers who use diverse and ambitious literary forms to broaden understanding of our contemporary world.

Graywolf Press published thirty-four new titles in 2017 and acquired thirty-eight new manuscripts by authors from around the world. We reached 600,000 readers with outstanding contemporary literature, achieving \$3.3 million in book sales. Graywolf authors participated in over 470 literary events across the U.S. in 2017, reaching a live audience of approximately 25,000 people at bookstores, conferences, festivals, universities, and other venues.

Graywolf books, authors, and leadership were recognized by the literary field with awards and honors in 2017, demonstrating the excellence of our publishing program and impact of our work. Publisher Fiona McCrae and executive editor Jeff Shotts were jointly awarded the Editor's Award by *Poets & Writers*. Five Graywolf authors who offer keen insight into both the present cultural moment and the human condition were longlisted for National Book Awards in 2017, and three went on to become finalists: Layli Long Soldier (*WHEREAS*), Danez Smith (*Don't Call Us Dead*), and Carmen Maria Machado (*Her Body and Other Parties*). Graywolf poet Tracy K. Smith was named U.S. Poet Laureate in 2017.

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, 2017 AND 2016

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, 2017 and 2016, 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, 2017 and 2016, 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 \$1,063,776 and \$990,755 at December 31, 2017 and 2016, 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 \$538,208 and \$354,202 at December 31, 2017 and 2016, 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 \$438,308 and \$362,960 as of December 31, 2017 and 2016, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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, 2017 AND 2016

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 nonactive 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 (IRC) 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 IRC 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 \$103,454 and \$87,682 was recorded for the years ended December 31, 2017 and 2016, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

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 \$147,595 and \$83,891 for the years ended December 31, 2017 and 2016, 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 April 2, 2018, 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 2017, 98% of sales were made through FSG and accounts receivable of \$911,697 was due from FSG at December 31, 2017. In 2016, 97% of sales were made through FSG and accounts receivable of \$572,461 was due from FSG at December 31, 2016.

Contributions receivable are due from donors and granting agencies located throughout the country. As of December 31, 2017, contributions receivable from three individual donors accounted for approximately 56% of outstanding contributions. As of December 31, 2016, contribution receivable from two individual donors accounted for approximately 69% of outstanding contributions.

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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>2017</u>	<u>2016</u>
2018	\$ 148,175	\$ 49,990
2019	126,180	-
2020	34,780	-
2021	31,380	-
2022	30,135	-
Total Pledges Receivable	<u>370,650</u>	<u>49,990</u>
Discounted to Net Present Value at 2.75%	<u>(10,766)</u>	<u>-</u>
Net Pledges Receivable	359,884	49,990
Current Portion	<u>148,175</u>	<u>49,990</u>
Long-Term Portion	<u>\$ 211,709</u>	<u>\$ -</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, 2017 and 2016, no allowance was deemed necessary.

NOTE 4 INVESTMENTS

Graywolf held the following investments as of December 31:

	<u>2017</u>		<u>2016</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Certificates of Deposit	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,561</u>	<u>\$ 101,561</u>

Investment income from certificates of deposit was \$251 in 2017 and \$249 in 2016.

NOTE 5 PROPERTY AND EQUIPMENT

Graywolf owned the following assets as of December 31:

	<u>2017</u>	<u>2016</u>
Furniture and Equipment	\$ 79,070	\$ 78,548
Leasehold Improvements	85,995	85,995
Database and Website	<u>144,533</u>	<u>146,482</u>
	309,598	311,025
Less: Accumulated Depreciation	<u>(281,159)</u>	<u>(297,886)</u>
Total Equipment	<u>\$ 28,439</u>	<u>\$ 13,139</u>

Depreciation expense of \$6,597 and \$8,082 was recorded for the years ended December 31, 2017 and 2016, 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, 2018 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, 2017, was 4.5%. There was no outstanding balance on the line of credit as of December 31, 2017 or 2016.

NOTE 7 UNRESTRICTED BOARD DESIGNATED NET ASSETS

Unrestricted board designated net assets as of December 31, 2017 and 2016 were \$1,637,000 and \$1,249,000. The board has designated these net assets for future use by Graywolf, as approved by the board.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	2017	2016
Restricted for Time:		
Next Page Campaign	\$ 2,500	\$ 19,500
New Chapter Campaign	334,484	-
Time Restricted Organizational Support	62,013	67,451
Restricted for Purpose:		
Support of Specified Titles	225,000	129,000
Endowment Earnings	1,811	1,499
Total	\$ 625,808	\$ 217,450

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:

	2017	2016
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, 2017 and 2016.

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>December 31, 2017</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 1,811	\$ 100,000	\$ 101,811
<u>December 31, 2016</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 1,499	\$ 100,000	\$ 101,499

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2015	\$ -	\$ 1,312	\$ 100,000	\$ 101,312
Investment Return:				
Investment Income	-	187	-	187
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	187	100,000	101,499
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2016	-	1,499	100,000	101,499
Investment Return:				
Investment Income	-	312	-	312
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	312	-	312
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2017	\$ -	\$ 1,811	\$ 100,000	\$ 101,811

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NOTE 11 COST OF GOODS SOLD

The reconciliation of cost of goods sold was as follows:

	<u>2017</u>	<u>2016</u>
Beginning Inventory	\$ 462,428	\$ 377,046
Production Cost	842,703	830,151
Other Cost of Sales and Adjustments	<u>(17,981)</u>	<u>(52,028)</u>
Goods Available-for-Sale	1,287,150	1,155,169
Less: Ending Inventory	<u>462,339</u>	<u>462,428</u>
Cost of Goods Sold	<u><u>\$ 824,811</u></u>	<u><u>\$ 692,741</u></u>

NOTE 12 LEASED FACILITIES AND EQUIPMENT

Rental commitments under noncancelable leases for office space and equipment in effect at December 31, 2017, totaled \$114,904. The lease of the Minneapolis, Minnesota 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>
2018	\$ 31,423
2019	32,399
2020	33,671
2021	17,411
Total	<u><u>\$ 114,904</u></u>

Rental expense of \$65,676 and \$61,102 as recorded for the years ended December 31, 2017 and 2016, 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, 2017 and 2016. Retirement expense of \$42,578 and \$31,543 was recorded for the years ended December 31, 2017 and 2016, respectively.

NOTE 14 COMMITMENTS

Graywolf, 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, 2017 is \$391,500.

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NOTE 15 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors, national council, and employees totaled \$793,293 and \$303,537 during the years ended December 31, 2017 and 2016, respectively. Board member contributions receivable as of December 31, 2017 and 2016 were \$335,250 and \$33,500, respectively.