

GRAYWOLF PRESS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

**GRAYWOLF PRESS
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YEARS ENDED DECEMBER 31, 2018 AND 2017**

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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, 2018 and 2017, 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, 2018 and 2017, 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 19, 2019

**GRAYWOLF PRESS
BALANCE SHEETS
DECEMBER 31, 2018 AND 2017**

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,094,934	\$ 1,420,436
Accounts Receivable, Net	1,147,649	913,107
Grants Receivable	192,813	235,913
Short-Term Pledges Receivable	-	148,175
Prepaid Expense	65,203	51,327
Royalty Advances	546,397	538,208
Inventory - Net	438,146	462,339
Total Current Assets	4,485,142	3,769,505
Long-Term Pledges Receivable	1,028,245	211,709
Property and Equipment, Net	91,232	28,439
Total Assets	\$ 5,604,619	\$ 4,009,653
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 54,984	\$ 54,136
Accrued Expense	3,745	1,732
Royalty Payable	404,801	370,572
Deferred Sales Revenue	538,480	438,308
Total Current Liabilities	1,002,010	864,748
NET ASSETS		
Without Donor Restrictions:		
Undesignated	797,263	782,097
Board Designated	2,472,000	1,637,000
Total Without Donor Restrictions:	3,269,263	2,419,097
With Donor Restrictions	1,333,346	725,808
Total Net Assets	4,602,609	3,144,905
Total Liabilities and Net Assets	\$ 5,604,619	\$ 4,009,653

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				
	Operations	Board Designated	Total Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE					
Contributions	\$ 1,171,012	\$ -	\$ 1,171,012	\$ 811,421	\$ 1,982,433
Grants from Governmental Agencies	-	-	-	217,061	217,061
Book Revenue - Net of Returns	3,714,079	-	3,714,079	-	3,714,079
Special Event Income (Net of Expense of \$28,383 and \$27,302 in 2018 and 2017, Respectively)	28,002	-	28,002	-	28,002
Rights Revenue	226,817	-	226,817	-	226,817
Investment Income	6,850	-	6,850	767	7,617
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	105,000	-	105,000	(105,000)	-
Satisfaction of Time Restrictions	316,711	-	316,711	(316,711)	-
Total Support and Revenue	<u>5,568,471</u>	<u>-</u>	<u>5,568,471</u>	<u>607,538</u>	<u>6,176,009</u>
EXPENSE					
Program Services:					
Editorial Services	633,522	-	633,522	-	633,522
Cost of Sales	2,695,336	-	2,695,336	-	2,695,336
Promotion and Marketing Services	832,803	-	832,803	-	832,803
Total Program Services	<u>4,161,661</u>	<u>-</u>	<u>4,161,661</u>	<u>-</u>	<u>4,161,661</u>
Support Services:					
Management and General	233,122	-	233,122	-	233,122
Development	323,522	-	323,522	-	323,522
Total Support Services	<u>556,644</u>	<u>-</u>	<u>556,644</u>	<u>-</u>	<u>556,644</u>
Total Expense	<u>4,718,305</u>	<u>-</u>	<u>4,718,305</u>	<u>-</u>	<u>4,718,305</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	850,166	-	850,166	607,538	1,457,704
TRANSFER OF DESIGNATED FUNDS	<u>(835,000)</u>	<u>835,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AFTER TRANSFERS	15,166	835,000	850,166	607,538	1,457,704
Net Assets - Beginning of Year	<u>782,097</u>	<u>1,637,000</u>	<u>2,419,097</u>	<u>725,808</u>	<u>3,144,905</u>
NET ASSETS - END OF YEAR	<u>\$ 797,263</u>	<u>\$ 2,472,000</u>	<u>\$ 3,269,263</u>	<u>\$ 1,333,346</u>	<u>\$ 4,602,609</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2018 AND 2017

2017				
Operations	Board Designated	Total Without Donor Restrictions	With Donor Restrictions	Total
\$ 878,698	\$ -	\$ 878,698	\$ 480,709	\$ 1,359,407
-	-	-	186,576	186,576
3,307,713	-	3,307,713	-	3,307,713
19,712	-	19,712	-	19,712
91,527	-	91,527	-	91,527
-	-	-	251	251
105,500	-	105,500	(105,500)	-
153,678	-	153,678	(153,678)	-
<u>4,556,828</u>	<u>-</u>	<u>4,556,828</u>	<u>408,358</u>	<u>4,965,186</u>
620,105	-	620,105	-	620,105
2,306,786	-	2,306,786	-	2,306,786
736,013	-	736,013	-	736,013
<u>3,662,904</u>	<u>-</u>	<u>3,662,904</u>	<u>-</u>	<u>3,662,904</u>
167,011	-	167,011	-	167,011
327,708	-	327,708	-	327,708
494,719	-	494,719	-	494,719
<u>4,157,623</u>	<u>-</u>	<u>4,157,623</u>	<u>-</u>	<u>4,157,623</u>
399,205	-	399,205	408,358	807,563
<u>(388,000)</u>	<u>388,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
11,205	388,000	399,205	408,358	807,563
<u>770,892</u>	<u>1,249,000</u>	<u>2,019,892</u>	<u>317,450</u>	<u>2,337,342</u>
<u>\$ 782,097</u>	<u>\$ 1,637,000</u>	<u>\$ 2,419,097</u>	<u>\$ 725,808</u>	<u>\$ 3,144,905</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
DECEMBER 31, 2018

	2018							
	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	\$ 369,986	\$ -	\$ 361,498	\$ 731,484	\$ 114,843	\$ 142,530	\$ 257,373	\$ 988,857
Employee Benefits	65,152	-	63,658	128,810	20,223	25,099	45,322	174,132
Payroll Taxes	27,255	-	26,630	53,884	8,461	10,500	18,960	72,844
Total Personnel Costs	<u>462,393</u>	<u>-</u>	<u>451,786</u>	<u>914,178</u>	<u>143,527</u>	<u>178,129</u>	<u>321,655</u>	<u>1,235,833</u>
Cost of Goods Sold	-	904,365	-	904,365	-	-	-	904,365
Royalty Expense	3,500	820,323	-	823,823	-	-	-	823,823
Distribution Fees	-	918,269	-	918,269	-	-	-	918,269
Contract Services	22,634	-	16,748	39,382	1,508	53,611	55,119	94,502
Promotion Expense	-	-	145,077	145,077	-	14,389	14,389	159,466
Donor Recognition	-	-	-	-	-	13,852	13,852	13,852
Postage	21,016	-	67,581	88,597	566	11,110	11,676	100,273
Occupancy	22,067	-	21,561	43,628	6,850	8,501	15,351	58,979
Advertising and Commissions	-	52,379	-	52,379	36,653	-	36,653	89,032
Meetings and Entertainment	6,108	-	3,377	9,484	517	6,692	7,209	16,693
Dues and Subscriptions	6,202	-	7,359	13,561	-	8,812	8,812	22,373
Office Supplies	7,620	-	7,445	15,065	2,366	2,935	5,301	20,366
Travel	41,789	-	20,085	61,874	-	12,526	12,526	74,400
Complimentary Copies	-	-	27,848	27,848	-	-	-	27,848
Catalog Expense	-	-	16,027	16,027	-	-	-	16,027
Award Submissions	-	-	8,485	8,485	-	-	-	8,485
Telephone and Internet	6,354	-	6,209	12,563	1,972	2,448	4,420	16,983
Audit	-	-	-	-	16,987	-	16,987	16,987
Insurance	9,499	-	9,282	18,781	2,949	3,659	6,608	25,389
Bank Fees	3,317	-	3,241	6,558	1,030	1,278	2,308	8,866
Printing and Copying	3,135	-	3,063	6,198	973	1,208	2,181	8,379
Website/Database	7,892	-	7,711	15,603	2,450	3,040	5,490	21,093
Special Event	-	-	-	-	-	-	-	-
Legal Fees	-	-	-	-	11,200	-	11,200	11,200
Bad Debt Expense	-	-	-	-	2,500	-	2,500	2,500
Depreciation	9,997	-	9,917	19,914	1,074	1,333	2,407	22,321
Total Expense	<u>\$ 633,522</u>	<u>\$ 2,695,336</u>	<u>\$ 832,803</u>	<u>\$ 4,161,661</u>	<u>\$ 233,122</u>	<u>\$ 323,522</u>	<u>\$ 556,644</u>	<u>\$ 4,718,305</u>

See accompanying Notes to Financial Statements.

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
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 1,457,704	\$ 807,563
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	22,321	6,597
Change in Royalty Advances Reserve	34,229	118,917
Change in Sales Return Reserve	100,172	75,348
Change in Reserve for Obsolete Inventory	64,546	73,021
(Increase) Decrease in Current Assets:		
Accounts Receivable	(234,542)	(339,690)
Pledges Receivable	(668,361)	(309,894)
Grants Receivable	43,100	(101,279)
Royalty Advances	(8,189)	(184,006)
Inventory	(40,353)	(72,932)
Prepaid Expense	(13,876)	(561)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	848	17,653
Accrued Salaries Payable	2,013	(2,875)
Net Cash Provided by Operating Activities	759,612	87,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	-	101,561
Purchase of Equipment	(85,114)	(21,897)
Net Cash Provided (Used) by Investing Activities	(85,114)	79,664
NET INCREASE IN CASH AND CASH EQUIVALENTS	674,498	167,526
Cash and Cash Equivalents - Beginning of Year	1,420,436	1,252,910
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,094,934	\$ 1,420,436

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 30 and 35 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 33 books in 2018 and acquired 21 new manuscripts by authors from around the world. We reached 675,000 readers with outstanding contemporary literature, achieving \$3.7 million in book sales. Graywolf authors participated in over 460 literary events across the U.S. in 2018, reaching a live audience of approximately 25,000 people at bookstores, conferences, festivals, universities, and other venues.

Graywolf books and authors were recognized by the literary field with awards and honors in 2018, demonstrating the excellence of our publishing program and impact of our work. Most notably, *Milkman* by Anna Burns won the Man Booker Prize (UK), *Don't Call Us Dead* by Danez Smith won the Forward Prize for Best Collection (UK), and *WHEREAS* by Layli Long Soldier won the PEN/Jean Stein Book Award. Two authors were finalists for 2018 National Book Awards: Jamel Brinkley for *A Lucky Man*, and Jenny Xie for *Eye Level*. Graywolf poet Tracy K. Smith entered the second year of her role as U.S. Poet Laureate.

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:

Without Donor Restrictions – Undesignated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources.

Without Donor Restrictions – Board Designated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources and has set them aside for a particular purpose.

With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by action of Graywolf or passage of time. These resources may also include resources whose use must be held in perpetuity.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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 net realizable value. A reserve for obsolete inventory has been recorded for books that may be unsaleable based on historical data. The reserve for obsolescence was \$1,128,322 and \$1,063,776 at December 31, 2018 and 2017, 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 \$546,397 and \$538,208 at December 31, 2018 and 2017, 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 \$538,480 and \$438,308 as of December 31, 2018 and 2017, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions received are recorded as support without or with donor restrictions, depending on the existence and/or nature of any donor restrictions.

All donor restricted support is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions 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 revenue with donor restrictions 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, 2018 AND 2017

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

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Graywolf. 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, including being allocated based on the estimates of time spent on each functional category of expenses.

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.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 \$89,032 and \$83,942 was recorded for the years ended December 31, 2018 and 2017, respectively.

Shipping and Handling Costs

Shipping and handling costs are charged to operations as they are incurred. Shipping and handling expense was \$167,329 and \$147,613 for the years ended December 31, 2018 and 2017, 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.

Adoption of Accounting Principle

Graywolf adopted Financial Accounting Standards Board (FASB) ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* in 2018. These changes were applied retrospectively to ensure comparability with the prior year presented herein. The adoption did not impact Graywolf's financial position as of December 31, 2018 and 2017 or the changes in its net assets or cash flows for the years then ended.

Subsequent Events

Graywolf has evaluated the effect that subsequent events would have on the financial statements through March 19, 2019, 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 2018, 98% of sales were made through FSG and accounts receivable of \$1,143,966 was due from FSG at December 31, 2018. In 2017, 98% of sales were made through FSG and accounts receivable of \$911,697 was due from FSG at December 31, 2017.

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NOTE 2 SIGNIFICANT CONCENTRATIONS OF CREDIT RISK (CONTINUED)

Total contributions receivable include pledges receivable and grants receivable which are due from donors and granting agencies, respectively, located throughout the country. As of December 31, 2018, contributions receivable from two individual donors accounted for approximately 46% of outstanding contributions. As of December 31, 2017, contribution receivable from three individual donors accounted for approximately 56% of outstanding contributions.

NOTE 3 PLEDGES RECEIVABLE

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

<u>Year Ending December 31,</u>	<u>2018</u>	<u>2017</u>
2018	\$ -	\$ 148,175
2019	302,007	126,180
2020	274,615	34,780
2021	269,300	31,380
2022	239,823	30,135
2023	-	-
Total Pledges Receivable	<u>1,085,745</u>	<u>370,650</u>
Discounted to Net Present Value at 4%	<u>(57,500)</u>	<u>(10,766)</u>
Net Pledges Receivable	1,028,245	359,884
Current Portion	-	148,175
Long-Term Portion	<u>\$ 1,028,245</u>	<u>\$ 211,709</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, 2018 and 2017, no allowance was deemed necessary.

NOTE 4 PROPERTY AND EQUIPMENT

Graywolf owned the following assets as of December 31:

	<u>2018</u>	<u>2017</u>
Furniture and Equipment	\$ 85,752	\$ 79,070
Leasehold Improvements	85,995	85,995
Database and Website	<u>148,147</u>	<u>144,533</u>
Total	319,894	309,598
Less: Accumulated Depreciation	<u>(228,662)</u>	<u>(281,159)</u>
Total Equipment	<u>\$ 91,232</u>	<u>\$ 28,439</u>

Depreciation expense of \$22,321 and \$6,597 was recorded for the years ended December 31, 2018 and 2017, respectively.

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NOTE 5 LINE OF CREDIT

Graywolf secured a revolving line of credit for \$250,000 which expires on October 12, 2019 and is secured by the accounts receivables of Graywolf. The interest rate is a variable rate that ties to *The Wall Street Journal* prime rate which, at December 31, 2018, was 5.5%. There was no outstanding balance on the line of credit as of December 31, 2018 or 2017.

NOTE 6 NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD DESIGNATED

Net assets without donor restrictions - board designated as of December 31, 2018 and 2017 were \$2,472,000 and \$1,637,000, respectively. The board has designated these net assets for future use by Graywolf, as approved by the board.

Book sales, as well as contributed revenue from major campaigns, are variable over time. Book sales are unpredictable and dependent on market conditions, while campaign revenue is pledged over a number of years and is spent down over time. Therefore, the board of directors sets aside excess operating revenue from both book sales and campaign receipts for future year operations through a board designated fund at the end of each year. The Finance Committee recommends an amount to be transferred to the fund, and the full board votes on the transfer as part of the audited financial statement approval for the year.

Board designated funds are released in a similar mechanism, by recommendation from the Finance Committee and approval of the full board. Board designated funds do not have donor restrictions. Funds may be used to enable Graywolf Press to invest in singular writers, enlarge the commitment to inclusivity, engage readers, stimulate conversations, and grow operations. They also may be used to offset noncash expenses, such as inventory, cost of sales, or advance royalty expenses, and they may be used for program and personnel expenses associated with achieving strategic plan goals.

NOTE 7 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Subject to the Passage of Time:		
Next Page Campaign	\$ -	\$ 2,500
New Chapter Campaign	1,024,039	334,484
Time Restricted Organizational Support	133,529	62,013
Subtotal	1,157,568	398,997
Subject to Expenditure for Specified Purpose:		
Support of Specified Titles	73,200	225,000
Endowment Earnings	2,578	1,811
Subtotal	75,778	226,811
Endowment	100,000	100,000
Total	\$ 1,333,346	\$ 725,808

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NOTE 8 ENDOWMENT FUNDS

Description

The endowment fund consists an individual fund established by a donor for various purposes.

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 net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation 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

Endowment Net Asset Composition by Type of Fund

<u>December 31, 2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	2,578	2,578
	<u>\$ -</u>	<u>\$ 102,578</u>	<u>\$ 102,578</u>
<u>December 31, 2017</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	1,811	1,811
	<u>\$ -</u>	<u>\$ 101,811</u>	<u>\$ 101,811</u>

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NOTE 8 ENDOWMENT FUNDS (CONTINUED)

Changes in Endowment Net Assets

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
December 31, 2016	\$ -	\$ 101,499	\$ 101,499
Investment Return	-	312	312
December 31, 2017	-	101,811	101,811
Investment Return	-	767	767
December 31, 2018	<u>\$ -</u>	<u>\$ 102,578</u>	<u>\$ 102,578</u>

NOTE 9 COST OF GOODS SOLD

The reconciliation of cost of goods sold was as follows:

	<u>2018</u>	<u>2017</u>
Beginning Inventory	\$ 462,339	\$ 462,428
Production Cost	911,540	842,703
Other Cost of Sales and Adjustments	<u>(31,368)</u>	<u>(17,981)</u>
Goods Available-for-Sale	1,342,511	1,287,150
Less: Ending Inventory	<u>438,146</u>	<u>462,339</u>
Cost of Goods Sold	<u>\$ 904,365</u>	<u>\$ 824,811</u>

NOTE 10 LEASED FACILITIES AND EQUIPMENT

Rental commitments under noncancelable leases for office space and equipment in effect at December 31, 2018, totaled \$83,481. 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>
2019	\$ 32,399
2020	33,671
2021	17,411
Total	<u>\$ 83,481</u>

Rental expense of \$67,359 and \$65,676 as recorded for the years ended December 31, 2018 and 2017, respectively.

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NOTE 11 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, 2018 and 2017. Retirement expense of \$46,060 and \$42,578 was recorded for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 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, 2018 is \$350,750.

NOTE 13 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors, national council, and employees totaled \$582,279 and \$793,293 during the years ended December 31, 2018 and 2017, respectively. Board member contributions receivable as of December 31, 2018 and 2017 were \$374,456 and \$335,250, respectively.

NOTE 14 LIQUIDITY AND AVAILABILITY

Graywolf monitors and reports the liquidity required to meet operating needs on a monthly basis. Graywolf has \$3,383,624 of financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date. Of those assets, \$2,472,000 are board designated for future periods. Graywolf also maintains a \$250,000 line of credit that it could draw upon in the event of an unanticipated liquidity need. Contributions receivable are subject to time restrictions, but will be collected within one year.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Graywolf considers all expenditures related to its ongoing activities of acquiring, publishing, and marketing books as well as the operations needed to support those activities. In addition to financial assets available to meet general expenditures over the next 12 months, Graywolf operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donated revenue.

As of December 31, 2018, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash and Equivalents	\$ 1,994,934
Distribution Sales Receivable (Net of Reserves Receivable)	967,070
Contributions Receivable Due in One Year or Less	119,613
Total	<u>\$ 3,081,617</u>