

GRAYWOLF PRESS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

**GRAYWOLF PRESS
TABLE OF CONTENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014**

INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
BALANCE SHEETS	3
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
STATEMENTS OF FUNCTIONAL EXPENSE	6
STATEMENTS OF CASH FLOWS	8
NOTES TO FINANCIAL STATEMENTS	9



CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2015 and 2014, 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.



An independent member of Nexia International

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, 2015 and 2014, 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
February 29, 2016

**GRAYWOLF PRESS
BALANCE SHEETS
DECEMBER 31, 2015 AND 2014**

ASSETS	<u>2015</u>	<u>2014</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,286,540	\$ 804,829
Accounts Receivable - Net	494,132	584,282
Grants Receivable	185,040	93,940
Short Term Pledges Receivable	82,225	74,060
Prepaid Expense	36,978	34,401
Royalty Advances	295,942	309,015
Inventory - Net	<u>377,046</u>	<u>438,438</u>
Total Current Assets	2,757,903	2,338,965
Long-Term Pledges Receivable	16,760	40,800
Investments	101,312	101,064
Property and Equipment - Net	<u>14,272</u>	<u>53,141</u>
Total Assets	<u>\$ 2,890,247</u>	<u>\$ 2,533,970</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 54,502	\$ 44,410
Accrued Expense	4,416	1,194
Royalty Payable	311,401	193,051
Deferred Sales Revenue	<u>380,348</u>	<u>389,242</u>
Total Current Liabilities	750,667	627,897
NET ASSETS		
Unrestricted:		
Undesignated	759,999	752,904
Board Designated	1,005,000	260,000
Temporarily Restricted	274,581	793,169
Permanently Restricted	<u>100,000</u>	<u>100,000</u>
Total Net Assets	<u>2,139,580</u>	<u>1,906,073</u>
Total Liabilities and Net Assets	<u>\$ 2,890,247</u>	<u>\$ 2,533,970</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015					Total
	Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	
SUPPORT AND REVENUE						
Contributions	\$ 610,306	\$ -	\$ 610,306	\$ 88,104	\$ -	\$ 698,410
Grants from Governmental Agencies	-	-	-	199,130	-	199,130
Book Revenue - Net of Returns	2,807,443	-	2,807,443	-	-	2,807,443
Special Event Income (Net of Expense of \$0 and \$53,135 in 2015 and 2014, Respectively)	-	-	-	-	-	-
Rights Revenue	87,083	-	87,083	-	-	87,083
Investment Income	-	-	-	248	-	248
Net Assets Released from Restrictions:						
Satisfaction of Program Restrictions	70,000	-	70,000	(70,000)	-	-
Satisfaction of Time Restrictions	736,070	-	736,070	(736,070)	-	-
Total Support and Revenue	<u>4,310,902</u>	<u>-</u>	<u>4,310,902</u>	<u>(518,588)</u>	<u>-</u>	<u>3,792,314</u>
EXPENSE						
Program Services:						
Editorial Services	527,905	-	527,905	-	-	527,905
Cost of Sales	2,052,798	-	2,052,798	-	-	2,052,798
Promotion and Marketing Services	545,769	-	545,769	-	-	545,769
Total Program Services	<u>3,126,472</u>	<u>-</u>	<u>3,126,472</u>	<u>-</u>	<u>-</u>	<u>3,126,472</u>
Support Services:						
Management and General	229,381	-	229,381	-	-	229,381
Development	202,954	-	202,954	-	-	202,954
Total Support Services	<u>432,335</u>	<u>-</u>	<u>432,335</u>	<u>-</u>	<u>-</u>	<u>432,335</u>
Total Expense	<u>3,558,807</u>	<u>-</u>	<u>3,558,807</u>	<u>-</u>	<u>-</u>	<u>3,558,807</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	752,095	-	752,095	(518,588)	-	233,507
TRANSFER OF DESIGNATED FUNDS	<u>(745,000)</u>	<u>745,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AFTER TRANSFERS	7,095	745,000	752,095	(518,588)	-	233,507
Net Assets - Beginning of Year	<u>752,904</u>	<u>260,000</u>	<u>1,012,904</u>	<u>793,169</u>	<u>100,000</u>	<u>1,906,073</u>
NET ASSETS - END 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>

See accompanying Notes to Financial Statements.

2014

Operations	Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 578,087	\$ -	\$ 578,087	\$ 267,413	\$ -	\$ 845,500
42,543	-	42,543	107,019	-	149,562
1,889,039	-	1,889,039	-	-	1,889,039
121,161	-	121,161	-	-	121,161
63,898	-	63,898	-	-	63,898
-	-	-	247	-	247
65,000	-	65,000	(65,000)	-	-
556,870	-	556,870	(556,870)	-	-
3,316,598	-	3,316,598	(247,191)	-	3,069,407
466,228	-	466,228	-	-	466,228
1,681,999	-	1,681,999	-	-	1,681,999
505,068	-	505,068	-	-	505,068
2,653,295	-	2,653,295	-	-	2,653,295
192,920	-	192,920	-	-	192,920
218,551	-	218,551	-	-	218,551
411,471	-	411,471	-	-	411,471
3,064,766	-	3,064,766	-	-	3,064,766
251,832	-	251,832	(247,191)	-	4,641
(240,000)	240,000	-	-	-	-
11,832	240,000	251,832	(247,191)	-	4,641
741,072	20,000	761,072	1,040,360	100,000	1,901,432
<u>\$ 752,904</u>	<u>\$ 260,000</u>	<u>\$ 1,012,904</u>	<u>\$ 793,169</u>	<u>\$ 100,000</u>	<u>\$ 1,906,073</u>

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

2015

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

See accompanying Notes to Financial Statements.

(6)

**GRAYWOLF PRESS
STATEMENTS OF FUNCTIONAL EXPENSE
DECEMBER 31, 2014**

2014

	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	Total	
Salaries	\$ 250,263	-	\$ 176,013	\$ 426,276	\$ 102,945	\$ 107,087	\$ 210,032	\$ 636,308	
Employee Benefits	35,342	-	24,857	60,199	14,538	15,123	29,661	89,860	
Payroll Taxes	18,412	-	12,949	31,361	7,574	7,878	15,452	46,813	
Total Personnel Costs	304,017	-	213,819	517,836	125,057	130,088	255,145	772,981	
Cost of Goods Sold	-	810,137	-	810,137	-	-	-	810,137	
Royalty Expense	-	379,419	-	379,419	-	-	-	379,419	
Distribution Fees	-	461,447	-	461,447	-	-	-	461,447	
Contract Services	19,682	-	37,585	57,267	1,890	8,630	10,520	67,787	
Promotion Expense	3,889	-	82,895	86,784	-	6,766	6,766	93,550	
Donor Recognition	-	-	-	-	-	4,640	4,640	4,640	
Postage and Shipping	14,502	-	47,239	61,741	580	5,790	6,370	68,111	
Occupancy	19,365	-	13,620	32,985	7,967	8,286	16,253	49,238	
Advertising and Commissions	-	30,996	-	30,996	38,679	-	38,679	69,675	
Meetings and Entertainment	6,432	-	1,544	7,976	402	5,551	5,953	13,929	
Dues and Subscriptions	2,365	-	6,445	8,810	-	4,516	4,516	13,326	
Office Supplies	7,926	-	5,575	13,501	3,259	3,392	6,651	20,152	
Travel	25,530	-	1,206	26,736	-	717	717	27,453	
Complimentary Copies	-	-	27,737	27,737	-	-	-	27,737	
Catalog Expense	-	-	8,999	8,999	-	-	-	8,999	
Award Submissions	-	-	6,226	6,226	-	-	-	6,226	
Telephone and Internet	6,600	-	4,642	11,242	2,715	2,824	5,539	16,781	
Audit	5,550	-	3,904	9,454	2,283	2,375	4,658	14,112	
Insurance	9,506	-	6,686	16,192	3,909	4,068	7,977	24,169	
Bank Fees	3,108	-	2,186	5,294	1,028	1,330	2,358	7,652	
Printing and Copying	2,091	-	1,470	3,561	859	896	1,755	5,316	
Website/Database	5,111	-	4,901	10,012	290	303	593	10,605	
Research and Development	-	-	-	-	-	3,000	3,000	3,000	
Special Event	-	-	-	-	-	22,257	22,257	22,257	
Depreciation	30,554	-	28,389	58,943	3,002	3,122	6,124	65,067	
Bad Debt Expense	-	-	-	-	1,000	-	1,000	1,000	
Total Expense	\$ 466,228	\$ 1,681,999	\$ 505,068	\$ 2,653,295	\$ 192,920	\$ 218,551	\$ 411,471	\$ 3,064,766	

See accompanying Notes to Financial Statements.

(7)

GRAYWOLF PRESS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 233,507	\$ 4,641
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	43,587	65,067
Change in Royalty Advances Reserve	118,350	64,323
Change in Sales Return Reserve	(8,894)	231,491
Change in Reserve for Obsolete Inventory	148,913	74,267
(Increases) Decreases in Current Assets:		
Accounts Receivable	90,150	(392,635)
Pledges Receivable	15,875	78,768
Grants Receivable	(91,100)	65,624
Royalty Advances	13,073	(12,681)
Inventory	(87,521)	(29,103)
Prepaid Expense	(2,577)	(8,739)
Increases (Decreases) in Current Liabilities:		
Accounts Payable	10,092	11,530
Accrued Salaries Payable	3,222	(1,275)
Net Cash Provided by Operating Activities	486,677	151,278
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Short-Term Investments	(248)	(247)
Purchase of Equipment	(4,718)	-
Net Cash Used by Investing Activities	(4,966)	(247)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	481,711	151,031
 Cash and Cash Equivalents - Beginning of Year	804,829	653,798
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 1,286,540	\$ 804,829

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Graywolf Press 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.

Graywolf Press published thirty titles in 2015 and had our best sales year ever. Our books reached about 475,000 readers and over 200,000 people visited our website; our reach increased 28% over the previous year. Our books and authors were honored in many ways, helping to achieve our mission of bringing diverse contemporary literature to a wide audience. Twenty-seven Graywolf titles across the genres of fiction, nonfiction, and poetry were named to sixty-four different "best of 2015" lists. Maggie Nelson's *The Argonauts* was featured on the cover of *Publishers Weekly's* "Best Books of 2015," and both *The Argonauts* and *Citizen* by Claudia Rankine were named *New York Times* Notable Books of 2015. *Citizen* spent three weeks on the nonfiction best-seller list of the *New York Times* after images of a woman reading it at a Donald Trump rally went viral. Graywolf won the Small Press Publisher Award from the Association of Writers & Writing Programs at their annual conference in our hometown of Minneapolis. The University of Minnesota featured the Graywolf Press archives in a major exhibit in the fall. Finally, a profile in *New York Magazine's* online culture section *Vulture* celebrated Graywolf's recent achievements: "No other independent press, never mind a 41-year-old nonprofit, has come so far so fast."

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, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 \$875,646 and \$726,733 at December 31, 2015 and 2014, 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 \$295,942 and \$309,015 at December 31, 2015 and 2014, 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 \$380,348 and \$389,242 as of December 31, 2015 and 2014, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 statement 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, 2015 AND 2014

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 \$55,695 and \$38,679 was recorded for the years ended December 31, 2015 and 2014, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

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 \$72,221 and \$57,323 for the years ended December 31, 2015 and 2014, 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 February 29, 2016, 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 % on new book sales and % on returns. In 2015, 97% of sales were made through FSG and accounts receivable of \$491,676 was due from FSG at December 31, 2015. In 2014, 98% of sales were made through FSG and accounts receivable of \$580,017 was due from FSG at December 31, 2014.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 3 PLEDGES RECEIVABLE

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

<u>Due in Year Ending December 31,</u>	<u>2015</u>	<u>2014</u>
2015	\$ -	\$ 74,060
2016	82,225	34,500
2017	17,500	8,000
Total Pledges Receivable	<u>99,725</u>	<u>116,560</u>
Discounted to Net Present Value at 4.0%	(740)	(1,700)
Net Pledges Receivable	<u>98,985</u>	<u>114,860</u>
Current Portion	<u>82,225</u>	<u>74,060</u>
Long-Term Portion	<u>\$ 16,760</u>	<u>\$ 40,800</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, 2015 and 2014, no allowance was deemed necessary.

NOTE 4 INVESTMENTS

Graywolf held the following investments as of December 31:

	<u>2015</u>		<u>2014</u>	
	<u>Market</u>	<u>Cost</u>	<u>Market</u>	<u>Cost</u>
Certificates of Deposit	<u>\$ 101,312</u>	<u>\$ 101,312</u>	<u>\$ 101,064</u>	<u>\$ 101,064</u>

Investment income from certificates of deposit was \$248 in 2015 and \$247 in 2014.

NOTE 5 PROPERTY AND EQUIPMENT

Graywolf owned the following assets as of:

	<u>2015</u>	<u>2014</u>
Furniture and Equipment	\$ 78,548	\$ 73,830
Leasehold Improvements	85,995	85,995
Database and Website	<u>139,533</u>	<u>139,533</u>
	304,076	299,358
Less: Accumulated Depreciation	<u>(289,804)</u>	<u>(246,217)</u>
Total Equipment	<u>\$ 14,272</u>	<u>\$ 53,141</u>

Depreciation expense of \$43,587 and \$65,067 was recorded for the years ended December 31, 2015 and 2014, respectively.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 6 LINE OF CREDIT

Graywolf secured a revolving line of credit for \$250,000 which expires on September 9, 2016 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, 2015, was 4.5%. There was no outstanding balance on the line of credit as of December 31, 2015 or 2014.

NOTE 7 UNRESTRICTED BOARD DESIGNATED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Next Page Campaign	<u>\$ 1,005,000</u>	<u>\$ 260,000</u>

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Restricted for Time:		
Next Page Campaign	\$ 39,600	\$ 643,157
Time Restricted Organizational Support	143,669	78,948
Restricted for Purpose:		
Support of Specified Titles	90,000	70,000
Endowment Earnings	1,312	1,064
Total	<u>\$ 274,581</u>	<u>\$ 793,169</u>

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:

	<u>2015</u>	<u>2014</u>
Keller Fund	<u>\$ 100,000</u>	<u>\$ 100,000</u>

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015 and 2014.

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

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014

NOTE 10 ENDOWMENT FUNDS (CONTINUED)

Endowment Net Asset Composition by Type of Fund

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

<u>December 31, 2014</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor Restricted	\$ -	\$ 1,064	\$ 100,000	\$ 101,064

Changes in Endowment Net Assets

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
December 31, 2013	\$ -	\$ 817	\$ 100,000	\$ 100,817
Investment Return:				
Investment Income	-	247	-	247
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	247	100,000	101,064
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2014	-	1,064	100,000	101,064
Investment Return:				
Investment Income	-	248	-	248
Net Appreciation (Depreciation)	-	-	-	-
Total Investment Return	-	248	-	248
Contributions	-	-	-	-
Appropriation of Endowment Assets for Expenditure	-	-	-	-
December 31, 2015	\$ -	\$ 1,312	\$ 100,000	\$ 101,312

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

NOTE 11 COST OF GOODS SOLD

The reconciliation of cost of goods sold was as follows:

	<u>2015</u>	<u>2014</u>
Beginning Inventory	\$ 438,438	\$ 483,602
Production Cost	717,617	732,876
Other Cost of Sales and Adjustments	<u>(2,087)</u>	<u>32,097</u>
Goods Available for Sale	1,153,968	1,248,575
Less: Ending Inventory	<u>377,046</u>	<u>438,438</u>
Cost of Goods Sold	<u>\$ 776,922</u>	<u>\$ 810,137</u>

NOTE 12 LEASED FACILITIES AND EQUIPMENT

Rental commitments under non-cancelable leases for office space and equipment in effect at December 31, 2015, totaled \$21,979. The lease of the Minneapolis, MN office is for a term of 60 months, expiring June 30, 2016. The future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 15,309
2017	3,480
2018	<u>3,190</u>
Total	<u>\$ 21,979</u>

Rental expense of \$57,022 and \$54,553 as recorded for the years ended December 31, 2015 and 2014, respectively.

NOTE 13 RETIREMENT PLAN

Graywolf has a 403(b) tax deferred annuity plan. Employees are eligible for a pension contribution equal to 5% and 3% of their salary upon completion of one year of service for the years ended December 31, 2015 and 2014, respectively. Retirement expense of \$30,217 and \$16,480 was recorded for the years ended December 31, 2015 and 2014, respectively.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

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, 2015 is \$223,000.

NOTE 15 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors, national council and employees totaled \$226,045 and \$509,703 during the years ended December 31, 2015 and 2014, respectively. Board member contributions receivable as of December 31, 2015 and 2014 were \$63,160 and \$67,000 respectively.