

COPY

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

BALANCE SHEET AS OF DECEMBER 31, 2011

INCOME & EXPENDITURE ACCOUNT

ENDED DECEMBER 31, 2011

AND

STATEMENT OF CASH FLOWS

ENDED DECEMBER 31, 2011

M & N TAX CONSULTANTS

ENCOUNTER FOR CULTURE AND EDUCATION, INC.
Balance Sheet
As of December 31, 2011

	Total
ASSETS	
Current Assets	
Bank Accounts	
1105200 CHASE Checking	205,539
1105250 CHASE Payroll	1,312
1105260 CHASE Savings	1,001
1106100 US Bank	30,981
1116100 Petty Cash	1,000
Total Bank Accounts	<u>\$239,833</u>
Accounts Receivable	
1301202 Perseus	304,060
1301300 Estimated Return Reserve	(121,624)
1301400 Bad Debt Reserves	(2,000)
Total Accounts Receivable	<u>\$180,436</u>
Other Current Assets	
1498000 Contribution Receivable	1,000,000
1509100 Inventory	684,779
1509300 Prepaid Royalties	357,167
Total Other Current Assets	<u>\$2,041,946</u>
Total Current Assets	<u>\$2,462,215</u>
Other Assets	
1509400 Prepaid Insurance	7,875
1604000 Deposits	11,709
Total Other Assets	<u>\$19,584</u>
TOTAL ASSETS	<u><u>\$2,481,799</u></u>
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2101100 Accounts Payable	128,381
Total Accounts Payable	<u>\$128,381</u>
Credit Cards	
2101300 American Express	1,648
Total Credit Cards	<u>\$1,648</u>
Other Current Liabilities	
2516100 Payroll Liabilities	56
Total Other Current Liabilities	<u>\$56</u>
Total Current Liabilities	<u>\$130,084</u>
Total Liabilities	<u>\$130,084</u>
Equity	
2915200 Temporarily restricted	1,000,000

	Total
2918100 Retained Earnings	1,479,366
Net Income	(127,651)
Total Equity	\$2,351,715
TOTAL LIABILITIES AND EQUITY	\$2,481,799

Sunday, Feb 05, 2012 02:43:26 PM GMT-8 - Accrual Basis

ENCOUNTER FOR CULTURE AND EDUCATION, INC.
Income & Expenditure Account
January - December 2011

	Total
Income	
3000000 Sales	1,412,059
3021800 Returns & Credits	(435,249)
3031000 Contributions	157,000
3091000 Other Income	29,868
Total Income	\$1,163,677
Cost of Goods Sold	
3900000 Handling Fees	136,178
Total Cost of Goods Sold	\$136,178
Gross Profit	\$1,027,499
Expenses	
4000000 Administrative Operations	283,600
5000000 Editorial/Acquisitions	405,166
6000000 Production/Manufacturing	440,981
7000000 Sales/Marketing	252,343
8000000 Fulfillment	86,788
9000000 Personnel	686,272
Total Expenses	\$2,155,150
Net Operating Income	\$ (1,127,651)
Other Income	
9919000 General Grant	1,000,000
Total Other Income	\$1,000,000
Net Other Income	\$1,000,000
Net Income	\$ (127,651)

Accrual Basis

Encounter for Culture and Education, Inc.
Statement of Cash Flows

2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows Provided (Used):		
From Operating Activities:		
Change in net assets for the period	\$ (1,127,651)	\$ (1,050,227)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease (increase) in accounts receivable	25,418	2,426
Decrease (increase) in contributions receivable	1,000,000	1,000,000
Decrease (increase) in inventory	(56,128)	(69,849)
Decrease (increase) in prepaid royalties	(67,672)	137,320
Decrease (increase) in other assets	(8)	225
Increase (decrease) in accounts payable	14,425	(10,965)
	<hr/>	<hr/>
Net cash provided by operating activities	(211,616)	8,930
Cash and cash equivalents, beginning of year	<hr/> 451,449	<hr/> 442,519
Cash and cash equivalents, end of period	<hr/> \$ 239,833	<hr/> \$ 451,449

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2011

1. The value of books held in inventory as of December 31, 2011 is stated at estimated cost of \$760,865 less a reserve for slow moving books in the amount \$76,087.
2. Author Advances paid in respect of books in production and books which have not yet fully earned royalties equivalent to advances are capitalized in Prepaid Royalties. An amount equal to 25% of net sales is expensed from Prepaid Royalties and charged to Author Royalties each month. This charge off is verified annually by comparison to Royalties actually earned and Advances deemed unlikely to ever be fully earned back and thus written off. The Corporation had approximately \$169,000 of royalty advance commitments outstanding to authors as of December 31, 2011.
3. Fixed Assets have been expensed when purchased.
4. A reserve for anticipated book returns amounts to \$121,624 as at December 31 2011, estimated at 40% of Accounts Receivable.
5. The reserve for bad debts is \$ 2,000.

M & N TAX CONSULTANTS

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

FINANCIAL STATEMENT BUDGET

		Actual 2011	Budget 2013
INCOME			
	Book Sales	965,000	1,313,000
	Other Income	42,000	22,000
	Contributions	157,000	205,000
	SUB-TOTAL INCOME	\$ 1,164,000	\$ 1,540,000
EXPENSES			
	PERSEUS HANDLING FEE	\$ 136,000	\$ 197,000
GROSS PROFIT		1,028,000	1,343,000
ADMINISTRATIVE			
	Rent	92,000	92,000
	Postage & Delivery	33,000	30,000
	Bookkeeping	46,000	46,000
	Travel and Entertainment	22,000	20,000
	Office Supplies	10,000	10,000
	Audit Fees	13,000	14,000
	Insurance	11,000	12,000
	Telephone	5,000	5,000
	Computer Support	26,000	28,000
	Legal Fees	7,000	7,000
	Utilities	6,000	7,000
	Equipment	3,000	3,000
	Subscriptions	1,000	4,000
	Janitorial	4,000	5,000
	Other Fees & Bank Charges	4,000	5,000
		\$ 283,000	\$ 288,000
EDITORIAL			
	Permission Rights	38,000	40,000
	Author Advances	182,000	158,000
	Author Royalties	124,000	260,000
	Copy Editing	57,000	65,000
	Travel and Miscellaneous	5,000	6,000
		\$ 406,000	\$ 529,000
PRODUCTION			
	Printing & Binding/digital; prep	347,000	390,000
	Pre-Press	62,000	75,000
		\$ 409,000	\$ 465,000
SALES & PROMOTION			
	Advertising	98,000	90,000
	Publicity	106,000	90,000
	Fulfillment	87,000	90,000
	Author Tours	4,000	5,000
	Catalog	17,000	10,000
	Travel	13,000	15,000
	Web Site Maintenance	5,000	5,000
	Trade Shows	12,000	12,000
		\$ 342,000	\$ 317,000

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

PERSONNEL EXPENSES

Salaries & Wages	515,000	567,000
Outside Services/Contract Labor	2,000	3,000
Benefits	133,000	147,000
Payroll Taxes	36,000	42,000

	<u>\$ 686,000</u>	<u>\$ 759,000</u>
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OTHER EXPENSES

Borders Bad Debt Expense	\$ 30,000	
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	<u>\$ 30,000</u>	<u>\$ -</u>
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TOTAL EXPENSES

	\$ 2,156,000	\$ 2,358,000
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CASH REQUIREMENT

	\$ 1,128,000	\$ 1,015,000
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