

COPY

**ENCOUNTER FOR CULTURE AND EDUCATION, INC.**

**BALANCE SHEET AS OF DECEMBER 31, 2012**

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**INCOME & EXPENDITURE ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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**AND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

**M & N TAX CONSULTANTS**

**ENCOUNTER FOR CULTURE AND EDUCATION, INC.**  
**Balance Sheet**  
As of December 31, 2012

	Total
<b>ASSETS</b>	
<b>Current Assets</b>	
<b>Bank Accounts</b>	
1105200 CHASE Checking	167,408
1105250 CHASE Payroll	5,443
1105260 CHASE Savings	1,001
1106100 US Bank	32,880
1116100 Petty Cash	1,000
<b>Total Bank Accounts</b>	<b>\$207,732</b>
<b>Accounts Receivable</b>	
1301202 Perseus	538,905
1301300 Estimated Return Reserve	(161,671)
1301400 Bad Debt Reserves	(2,000)
<b>Total Accounts Receivable</b>	<b>\$375,233</b>
<b>Other current assets</b>	
1498000 Contribution Receivable	1,000,000
1509100 Inventory	652,954
1509300 Prepaid Royalties	
1509310 Author Advances	1,816,220
1509320 Expensed Royalties	(1,482,464)
<b>Total 1509300 Prepaid Royalties</b>	<b>333,756</b>
<b>Total Other current assets</b>	<b>\$1,986,710</b>
<b>Total Current Assets</b>	<b>\$2,569,675</b>
<b>Other Assets</b>	
1509400 Prepaid Insurance	9,397
1604000 Deposits	11,709
<b>Total Other Assets</b>	<b>\$21,106</b>
<b>TOTAL ASSETS</b>	<b>\$2,590,781</b>
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Accounts Payable</b>	
2101100 Accounts Payable	196,632
<b>Total Accounts Payable</b>	<b>\$196,632</b>
<b>Credit Cards</b>	
2101300 American Express	2,042
<b>Total Credit Cards</b>	<b>\$2,042</b>
<b>Other Current Liabilities</b>	
2516100 Payroll Liabilities	0
2516125 Sect.125 Plan Balances	433
<b>Total 2516100 Payroll Liabilities</b>	<b>433</b>
<b>Total Other Current Liabilities</b>	

	Total
	<u>\$433</u>
<b>Total Current Liabilities</b>	<u><b>\$199,107</b></u>
<b>Total Liabilities</b>	<u><b>\$199,107</b></u>
<b>Equity</b>	
2915200 Temporarily restricted	1,000,000
2918100 Retained Earnings	1,413,780
Net Income	<u>(22,106)</u>
<b>Total Equity</b>	<u><b>\$2,391,674</b></u>
<b>TOTAL LIABILITIES AND EQUITY</b>	<u><u><b>\$2,590,781</b></u></u>

**ENCOUNTER FOR CULTURE AND EDUCATION, INC.**  
**Income & Expenditure Account**  
January - December 2012

	<b>Total</b>
<b>Income</b>	
3000000 Sales	1,706,959
3021800 Returns & Credits	(423,135)
3031000 Contributions	266,786
3091000 Other Income	11,410
<b>Total Income</b>	<b>\$1,562,021</b>
<b>Cost of Goods Sold</b>	
3900000 Handling Fees	151,753
<b>Total Cost of Goods Sold</b>	<b>\$151,753</b>
<b>Gross Profit</b>	<b>\$1,410,268</b>
<b>Expenses</b>	
4000000 Administrative Operations	287,689
5000000 Editorial/Acquisitions	420,888
6000000 Production/Manufacturing	654,369
7000000 Sales/Marketing	261,312
8000000 Fulfillment	119,942
9000000 Personnel	688,175
<b>Total Expenses</b>	<b>\$2,432,374</b>
<b>Net Operating Income</b>	<b>\$ (1,022,106)</b>
<b>Other Income</b>	
9919000 General Grant	1,000,000
<b>Total Other Income</b>	<b>\$1,000,000</b>
<b>Net Other Income</b>	<b>\$1,000,000</b>
<b>Net Income</b>	<b>\$ (22,106)</b>

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

**2012 AND 2011**

	<b><u>2012</u></b>	<b><u>2011</u></b>
Cash Flows Provided (Used):		
From Operating Activities:		
Change in net assets for the period	\$ (1,022,106)	\$ (1,065,586)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease (increase) in accounts receivable	(194,797)	25,418
Decrease (increase) in contributions receivable	1,000,000	1,000,000
Decrease (increase) in inventory	31,825	(56,128)
Decrease (increase) in prepaid royalties	85,476	(129,737)
Decrease (increase) in other assets	(1,522)	(8)
Increase (decrease) in accounts payable	69,023	14,425
	<hr/>	<hr/>
Net cash provided by operating activities	(32,101)	(211,616)
Cash and cash equivalents, beginning of year	<hr/> 239,833	<hr/> 451,449
Cash and cash equivalents, end of year	<hr/> <b>\$ 207,732</b>	<hr/> <b>\$ 239,833</b>

## **ENCOUNTER FOR CULTURE AND EDUCATION, INC.**

### **NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

1. The value of books held in inventory as of December 31, 2012 is stated at estimated cost of \$725,504 less a reserve for slow moving books in the amount \$72,550.
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 \$196,000 of royalty advance commitments outstanding to authors as of December 31, 2012.
3. Fixed Assets have been expensed when purchased.
4. A reserve for anticipated book returns amounts to \$161,671 as at December 31, 2012, estimated at 30% of Accounts Receivable.
5. The reserve for bad debts is \$2,000.

M & N TAX CONSULTANTS

# FINANCIAL STATEMENT BUDGET

		Budget	Actual
		2013	2012
INCOME	Book Sales	1,439,000	1,284,000
	Other Income	20,000	11,000
	Contributions	150,000	267,000
	<b>SUB-TOTAL INCOME</b>	<b>\$ 1,609,000</b>	<b>\$ 1,562,000</b>
EXPENSES			
	PERSEUS HANDLING FEE	\$ 170,000	\$ 152,000
GROSS PROFIT		1,439,000	1,410,000
ADMINISTRATIVE			
	Rent	97,000	97,000
	Postage & Delivery	30,000	39,000
	Bookkeeping	46,000	44,000
	Travel and Entertainment	20,000	11,000
	Office Supplies	12,000	11,000
	Audit Fees	15,000	15,000
	Insurance	11,000	11,000
	Telephone	8,000	7,000
	Computer Support	22,000	22,000
	Legal Fees	5,000	3,000
	Utilities	12,000	11,000
	Equipment	3,000	2,000
	Subscriptions	4,000	5,000
	Janitorial	5,000	5,000
	Other Fees & Bank Charges	5,000	5,000
		<b>\$ 295,000</b>	<b>\$ 288,000</b>
EDITORIAL			
	Permission Rights	30,000	18,000
	Author Advances	150,000	150,000
	Author Royalties	180,000	171,000
	Copy Editing	60,000	61,000
	Travel and Miscellaneous	16,000	21,000
		<b>\$ 436,000</b>	<b>\$ 421,000</b>
PRODUCTION			
	Printing & Binding/digital prep	470,000	567,000
	Pre-Press	90,000	87,000
		<b>\$ 560,000</b>	<b>\$ 654,000</b>
SALES & PROMOTION			
	Advertising	150,000	140,000
	Publicity	96,000	93,000
	Fulfillment	100,000	120,000
	Author Tours	10,000	6,000
	Catalog	20,000	16,000
	Travel	10,000	4,000
	Web Site Maintenance	1,000	1,000
	Trade Shows	1,000	1,000
		<b>\$ 388,000</b>	<b>\$ 381,000</b>
PERSONNEL EXPENSES			
	Salaries & Wages	581,000	523,000
	Outside Services/Contract Labor	2,000	1,000
	Benefits	135,000	128,000
	Payroll Taxes	42,000	36,000
		<b>\$ 760,000</b>	<b>\$ 688,000</b>
TOTAL EXPENSES		<b>\$ 2,439,000</b>	<b>\$ 2,432,000</b>
CASH REQUIREMENT		<b>\$ 1,000,000</b>	<b>\$ 1,022,000</b>