

COPY

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

BALANCE SHEET AS OF DECEMBER 31, 2013

**INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2013**

**AND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**

M & N TAX CONSULTANTS

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

Balance Sheet

As of December 31, 2013

	Total
ASSETS	
Current Assets	
Bank Accounts	
1105200 CHASE Checking	194,410
1105250 CHASE Payroll	3,297
1105260 CHASE Savings	1,002
1106100 US Bank	113,552
1116100 Petty Cash	1,000
Total Bank Accounts	\$313,261
Accounts Receivable	
1301202 Perseus	472,807
1301300 Estimated Return Reserve	(141,842)
1301400 Bad Debt Reserves	(2,000)
Total Accounts Receivable	\$328,965
Other current assets	
1498000 Contribution Receivable	1,000,000
1509100 Inventory	567,842
1509300 Prepaid Royalties	
1509310 Author Advances	1,929,720
1509320 Expensed Royalties	(1,740,280)
Total 1509300 Prepaid Royalties	189,440
Total Other current assets	\$1,757,282
Total Current Assets	\$2,399,508
Other Assets	
1509400 Prepaid Insurance	10,511
1509460 Security Deposit	2,190
1604000 Deposits	11,709
Total Other Assets	\$24,410
TOTAL ASSETS	\$2,423,919
LIABILITIES AND EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
2101100 Accounts Payable	144,052
Total Accounts Payable	\$144,052
Other Current Liabilities	
2516100 Payroll Liabilities	0

2516125 Sect.125 Plan Balances	205
Total 2516100 Payroll Liabilities	205
Total Other Current Liabilities	\$205
Total Current Liabilities	\$144,257
Total Liabilities	\$144,257
Equity	
2915200 Temporarily restricted	1,000,000
2918100 Retained Earnings	1,391,674
Net Income	(112,012)
Total Equity	\$2,279,662
TOTAL LIABILITIES AND EQUITY	\$2,423,919

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

Income & Expenditure Account

January - December 2013

	Total
Income	
3000000 Sales	2,298,672
3021800 Returns & Credits	-566,793
3031000 Contributions	101,000
3091000 Other Income	21,222
Total Income	\$1,854,100
Cost of Goods Sold	
3900000 Handling Fees	204,358
Total Cost of Goods Sold	\$204,358
Gross Profit	\$1,649,742
Expenses	
4000000 Administrative Operations	291,191
5000000 Editorial/Acquisitions	564,720
6000000 Production/Manufacturing	758,494
7000000 Sales/Marketing	302,666
8000000 Fulfillment	101,525
9000000 Personnel	743,158
Total Expenses	\$2,761,754
Net Operating Income	\$ -1,112,012
Other Income	
9919000 General Grant	1,000,000
Total Other Income	\$1,000,000
Net Other Income	\$1,000,000
Net Income	\$ -112,012

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

2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash Flows Provided (Used):		
From Operating Activities:		
Change in net assets for the period	\$ (1,112,012)	\$ (1,022,106)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Decrease (increase) in accounts receivable	46,269	(194,797)
Decrease (increase) in contributions receivable	1,000,000	1,000,000
Decrease (increase) in inventory	85,112	31,825
Decrease (increase) in prepaid royalties	144,315	85,476
Decrease (increase) in other assets	(3,304)	(1,522)
Increase (decrease) in accounts payable	(54,851)	69,023
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Net cash provided by operating activities	105,529	(32,101)
Cash and cash equivalents, beginning of year	<hr/> 207,732	<hr/> 239,833
Cash and cash equivalents, end of period	<hr/> <hr/> \$ 313,261	<hr/> <hr/> \$ 207,732

ENCOUNTER FOR CULTURE AND EDUCATION, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

1. The value of books held in inventory as of December 31, 2013 is stated at estimated cost of \$630,935 less a reserve for slow moving books in the amount of \$63,094.
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 \$228,000 of royalty advance commitments outstanding to authors as of December 31, 2013.
3. Fixed Assets have been expensed when purchased.
4. A reserve for anticipated book returns amounts to \$141,842 as at December 31, 2013, estimated at 30% of Accounts Receivable.
5. The reserve for bad debts is \$2,000.

M & N TAX CONSULTANTS

BUDGET

	BUDGET	ACTUAL
	2014	2013
INCOME		
Book Sales	1,905,000	1,732,000
Other Income	25,000	21,000
Contributions	125,000	101,000
SUB-TOTAL INCOME	\$ 2,055,000	\$ 1,854,000
EXPENSES		
PERSEUS HANDLING FEE	\$ 228,000	\$ 204,000
GROSS PROFIT	1,827,000	1,650,000
ADMINISTRATIVE		
Rent	100,000	100,000
Postage & Delivery	40,000	38,000
Bookkeeping	36,000	36,000
Travel and Entertainment	20,000	20,000
Office Supplies	11,000	10,000
Audit Fees	18,000	16,000
Insurance	11,000	10,000
Telephone	8,000	6,000
Computer Support	22,000	22,000
Legal Fees	5,000	5,000
Utilities	8,000	6,000
Equipment	3,000	2,000
Subscriptions	10,000	9,000
Janitorial	5,000	5,000
Other Fees & Bank Charges	5,000	6,000
	\$ 302,000	\$ 291,000
EDITORIAL		
Permission Rights	40,000	38,000
Author Advances	200,000	195,000
Author Royalties	180,000	238,000
Copy Editing	95,000	91,000
Travel and Miscellaneous	5,000	4,000
	\$ 520,000	\$ 566,000
PRODUCTION		
Printing & Binding	690,000	667,000
Pre-Press	90,000	91,000
	\$ 780,000	\$ 758,000
SALES & PROMOTION		
Advertising	180,000	200,000
Publicity	85,000	77,000
Fulfillment	110,000	102,000
Author Tours	10,000	-
Catalog	15,000	10,000
Travel	15,000	15,000
Web Site Maintenance	1,000	-
Trade Shows	1,000	-
	\$ 417,000	\$ 404,000
PERSONNEL EXPENSES		
Salaries & Wages	600,000	553,000
Outside Services/Contract Labor	2,000	-
Benefits	161,000	152,000
Payroll Taxes	45,000	38,000
	\$ 808,000	\$ 743,000
OTHER EXPENSES		
	\$ -	\$ -
	\$ -	\$ -
TOTAL EXPENSES	\$ 2,827,000	\$ 2,762,000
CASH REQUIREMENT	\$ 1,000,000	\$ 1,112,000