ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

FINANCIAL STATEMENTS

AND

INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2012 AND 2011

MATTHEWS, CARTER & BOYCE
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STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	December 31, 2012			December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$ 917,889	$ 286,922	$ 1,204,811	$ 766,487	$ 215,996	$ 982,483
Grants and contributions receivable, current portion	10,728	248,250	258,978	9,614	185,000	194,614
Accounts receivable, net	751,011	-	751,011	643,039	-	643,039
Inventory, net	1,376,661	-	1,376,661	1,466,607	-	1,466,607
Prepublication costs	47,583	-	47,583	56,314	-	56,314
Royalty advances, net	359,143	-	359,143	378,588	-	378,588
Other current assets	59,547	-	59,547	84,905	-	84,905
Total Current Assets	$ 3,522,562	$ 535,172	$ 4,057,734	$ 3,405,554	$ 400,996	$ 3,806,550
GRANTS AND CONTRIBUTIONS RECEIVABLE, net of current portion	-	50,000	50,000	-	10,000	10,000
PROPERTY AND EQUIPMENT, NET	56,588	-	56,588	18,361	-	18,361
TOTAL ASSETS	$ 3,579,150	$ 585,172	$ 4,164,322	$ 3,423,915	$ 410,996	$ 3,834,911

The accompanying notes are an integral part of these financial statements.

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	December 31, 2012			December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES						
Accounts payable and accrued expenses	$ 293,787	$ -	$ 293,787	$ 371,163	$ -	$ 371,163
Accrued payroll and related liabilities	203,958	-	203,958	191,682	-	191,682
Royalties payable	167,272	-	167,272	143,085	-	143,085
Deferred rent, current portion	2,768	-	2,768	13,274	-	13,274
Line of credit	250,000	-	250,000	-	-	-
Notes payable, current portion	-	-	-	25,000	-	25,000
Total Current Liabilities	$ 917,785	$ -	$ 917,785	$ 744,204	$ -	$ 744,204
Deferred rent, net of current portion	54,859	-	54,859	-	-	-
Notes payable, net of current portion	100,000	-	100,000	-	-	-
Total Liabilities	$ 1,072,644	$ -	$ 1,072,644	$ 744,204	$ -	$ 744,204
NET ASSETS						
Unrestricted						
Board-designated	$ 510,000	$ -	$ 510,000	$ 510,000	$ -	$ 510,000
Undesignated	1,996,506	-	1,996,506	2,169,711	-	2,169,711
Temporarily restricted	-	585,172	585,172	-	410,996	410,996
Total Net Assets	$ 2,506,506	$ 585,172	$ 3,091,678	$ 2,679,711	$ 410,996	$ 3,090,707
TOTAL LIABILITIES AND NET ASSETS	$ 3,579,150	$ 585,172	$ 4,164,322	$ 3,423,915	$ 410,996	$ 3,834,911

The accompanying notes are an integral part of these financial statements.

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	For the Year Ended December 31, 2012			For the Year Ended December 31, 2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES AND SUPPORT						
Book sales, net of returns	$ 2,766,503	$ -	$ 2,766,503	$ 2,748,868	$ -	$ 2,748,868
Grants, institutional foundations	469,724	982,102	1,451,826	579,678	343,045	922,723
Grants and contributions, family foundations and individuals	445,543	135,161	580,704	451,263	111,644	562,907
Interest and other income, net	32,174	-	32,174	7,879	-	7,879
Net assets released from restrictions	943,087	(943,087)	-	765,309	(765,309)	-
Total Revenues and Support	$ 4,657,031	$ 174,176	$ 4,831,207	$ 4,552,997	$ (310,620)	$ 4,242,377
EXPENSES						
Program services						
Research and publication	$ 1,995,448	$ -	$ 1,995,448	$ 1,932,171	$ -	$ 1,932,171
Marketing and distribution	1,220,608	-	1,220,608	1,213,353	-	1,213,353
Program assistance	557,556	-	557,556	631,398	-	631,398
Supporting services						
General and administrative	612,803	-	612,803	599,947	-	599,947
Fundraising	443,821	-	443,821	390,753	-	390,753
Total Expenses	$ 4,830,236	$ -	$ 4,830,236	$ 4,767,622	$ -	$ 4,767,622
INCREASE (DECREASE) IN NET ASSETS	$ (173,205)	$ 174,176	$ 971	$ (214,625)	$ (310,620)	$ (525,245)
NET ASSETS AT BEGINNING OF THE YEAR	2,679,711	410,996	3,090,707	2,894,336	721,616	3,615,952
NET ASSETS AT END OF THE YEAR	$ 2,506,506	$ 585,172	$ 3,091,678	$ 2,679,711	$ 410,996	$ 3,090,707

The accompanying notes are an integral part of these financial statements.

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in net assets	$ 971	$ (525,245)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Loss from sales of equipment	$ 57	$ -
Depreciation and amortization	8,271	9,323
Increase (decrease) in allowance for book returns	(27,012)	(45,418)
Increase (decrease) in allowance for doubtful accounts	818	(2,861)
Increase (decrease) in allowances for inventory and royalty advances	(62,926)	(191,050)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants and contributions receivable	(104,364)	437,690
Accounts receivable	(81,778)	310,687
Inventory	106,545	134,972
Prepublication costs	8,731	65,728
Royalty advances	65,772	1,741
Other current assets	25,358	(32,150)
Increase (decrease) in:		
Accounts payable and accrued expenses	(77,376)	71,157
Accrued payroll and related liabilities	12,276	25,567
Royalties payable	24,187	(20,611)
Deferred rent	44,353	(14,015)
Total Adjustments	$ (57,088)	$ 750,760
Net Cash Provided (Used) by Operating Activities	$ (56,117)	$ 225,515
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	$ (46,555)	$ (9,736)
Proceeds from sale of equipment	-	948
Net Cash Used in Investing Activities	$ (46,555)	$ (8,788)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing on line of credit	$ 250,000	$ -
Proceeds from note payable	100,000	-
Repayment of note payable	(25,000)	(143,334)
Net Cash Provided (Used) by Financing Activities	$ 325,000	$ (143,334)
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 222,328	$ 73,393
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	982,483	909,090
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,204,811	$ 982,483
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 5,546	$ 725

The accompanying notes are an integral part of these financial statements.

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012
(With Comparative Totals for 2011)

	Program Services				Supporting Services		Total for the Year Ended December 31, 2012	Total for the Year Ended December 31, 2011
	Research and Publication	Marketing and Distribution	Program Assistance	Total Program Services	General and Administrative	Fundraising		
Salaries, payroll taxes and employee benefits	$ 706,485	$ 480,717	$ 200,571	$ 1,387,773	$ 436,271	$ 324,835	$ 2,148,879	$ 1,959,792
Cost of books sold	1,106,364	-	2,500	1,108,864	-	-	1,108,864	1,090,118
Professional fees	14,811	389,536	104,336	508,683	62,043	9,042	579,768	551,154
Promotions	7,577	200,922	1,713	210,212	1,364	1,906	213,482	275,856
Program production	1,414	-	126,120	127,534	-	-	127,534	258,507
Occupancy	60,431	86,698	27,075	174,204	34,710	38,195	247,109	232,528
Travel and conferences	38,876	18,075	72,326	129,277	23,802	38,340	191,419	197,789
Postage and shipping	4,764	3,441	2,096	10,301	3,523	2,803	16,627	16,325
Supplies	12,372	13,338	10,585	36,295	27,729	13,496	77,520	82,646
Insurance	23,622	16,724	5,936	46,282	9,278	8,321	63,881	57,959
Telephone	7,106	3,909	1,607	12,622	10,109	3,135	25,866	25,831
Depreciation and amortization	2,647	2,456	757	5,860	1,219	1,192	8,271	9,323
Bank and interest charges	5,070	4,401	1,822	11,293	2,578	2,370	16,241	7,788
Bad debt expense (recovery)	3,538	-	-	3,538	-	-	3,538	(718)
Sales taxes and other fees/dues	371	391	112	874	177	186	1,237	2,724
Total for the year ended December 31, 2012	$ 1,995,448	$ 1,220,608	$ 557,556	$ 3,773,612	$ 612,803	$ 443,821	$ 4,830,236	
Total for the year ended December 31, 2011	$ 1,932,171	$ 1,213,353	$ 631,398	$ 3,776,922	$ 599,947	$ 390,753		$ 4,767,622

The accompanying notes are an integral part of these financial statements.

ISLAND PRESS - CENTER FOR RESOURCE ECONOMICS

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services				Supporting Services		Total for the Year Ended December 31, 2011
	Research and Publication	Marketing and Distribution	Program Assistance	Total Program Services	General and Administrative	Fundraising	
Salaries, payroll taxes and employee benefits	$ 648,760	$ 431,059	$ 189,012	$ 1,268,831	$ 432,839	$ 258,122	$ 1,959,792
Cost of books sold	1,090,068	-	50	1,090,118	-	-	1,090,118
Professional fees	30,527	379,167	77,193	486,887	48,386	15,881	551,154
Promotions	13,712	255,302	3,756	272,770	933	2,153	275,856
Program production	-	-	258,507	258,507	-	-	258,507
Occupancy	60,738	76,002	29,518	166,258	33,079	33,191	232,528
Travel and conferences	39,889	32,733	44,187	116,809	28,431	52,549	197,789
Postage and shipping	4,007	3,946	1,959	9,912	3,329	3,084	16,325
Supplies	10,289	11,487	17,322	39,098	29,051	14,497	82,646
Insurance	22,293	14,046	5,833	42,172	8,917	6,870	57,959
Telephone	5,827	4,271	2,054	12,152	11,696	1,983	25,831
Depreciation and amortization	3,393	2,337	969	6,699	1,482	1,142	9,323
Bank and interest charges	2,442	2,229	769	5,440	1,388	960	7,788
Bad debt recovery	(718)	-	-	(718)	-	-	(718)
Sales taxes and other fees/dues	944	774	269	1,987	416	321	2,724
Total for the year ended December 31, 2011	$ 1,932,171	$ 1,213,353	$ 631,398	$ 3,776,922	$ 599,947	$ 390,753	$ 4,767,622

The accompanying notes are an integral part of these financial statements.

Note 1. Organization and Significant Accounting Policies

The Island Press – Center for Resource Economics (the Center – formerly Center for Resource Economics, dba Island Press) was organized in 1978 as a nonprofit corporation under the laws of the state of California to conduct research and educate the public in the area of natural resource conservation and management. In 1984, the Center refocused operations primarily on the publishing and marketing of books related to natural resource conservation and management. In June 1992, the Center was granted an exemption from federal and state income taxes as an independent public charity by the Internal Revenue Service and the state of California Franchise Tax Board, respectively. Currently, the Center is a full-service information provider publishing its own titles, as well as marketing and distributing titles on natural resource management from other publishers.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results may differ from estimates under different assumptions or conditions.

Revenue Recognition

Revenue from book sales is recognized when books are shipped. Book sales are recorded net of estimated returns.

Contributions and grants are accounted for in accordance with the provisions of authoritative guidance issued by the Financial Accounting Standards Board (FASB). Under such guidance, contributions or grants received by the Center that are restricted as to time or purpose are recognized as revenue when received or pledged.

Noncash contributions are recognized at the fair value of assets received.

Cash Equivalents

The Center considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents.

Note 1. Organization and Significant Accounting Policies (Continued)

Grants and Contributions Receivable

Contributions are recognized when the donor makes a promise to give to the Center that is in substance, unconditional. Unconditional promises to give due in the next year are reflected as current grants and contributions receivable and are recorded at their net realizable value. Unconditional promises to give, due in subsequent years, are reflected as long-term grants and contributions receivable and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are received to discount the amounts. No discounts were recorded in 2012 or 2011 since the discount amounts would not have been significant.

Unconditional grants and contributions receivable at December 31, 2012 and 2011 are as follows:

	2012	2011
Receivable in less than one year	$ 258,978	$ 194,614
Receivable in two to five years	50,000	10,000
Total Grants and Contributions Receivable	$ 308,978	$ 204,614

Inventory

Inventory consists of books intended for resale and is stated at the lower of cost (average cost) or net realizable value. Cost of books sold includes plant and manufacturing costs, royalty expenses for books sold, plus write-downs of inventory and royalty advances to net realizable value. Write-downs of inventory and royalty advances totaled $117,848 and $171,935 for the years ended December 31, 2012 and 2011, respectively.

Prepublication Costs

Prepublication costs include plant and manufacturing costs incurred prior to the completion of related books. Editorial costs are expensed as incurred.

Property and Equipment

The Center capitalizes property and equipment additions exceeding $500. Property and equipment is stated at cost. Depreciation and amortization of property and equipment is computed using the straight-line method over the estimated useful lives of three to five years. Amortization of leasehold improvements is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease.

Note 1. Organization and Significant Accounting Policies (Continued)

Concentrations of Credit Risk

The Center's assets that are exposed to credit risk consist primarily of cash and cash equivalents, grants and contributions receivable and accounts receivable. Grants and contributions receivable consist primarily of amounts due from nonprofit organizations and individuals. Historically, the Center has not experienced losses related to grants and contributions receivable, and accordingly, an allowance for uncollectible grants and contributions receivable is not considered necessary. Accounts receivable consist of amounts due from various customers, including retailers and wholesalers. The Center's management reviews the accounts receivable balances as a whole to determine the adequacy of its allowance for doubtful accounts. The Center maintains cash balances that may at times exceed federally insured limits. Cash balances are maintained at high-quality financial institutions and the Center believes the credit risk related to these cash balances is minimal.

Unrestricted Net Assets

Unrestricted net assets represent unrestricted revenue and expenses and grants or contributions without grantor-imposed restrictions. These funds are available for the overall operation of the Center, and include both internally-designated and undesignated resources.

The Board of Directors of the Center, through Board action, has designated part of the unrestricted fund balance for a specific use. The Center's Board-designated reserve fund is for use in the future if and when total revenues and other support are insufficient to cover total expenses. The level of this reserve is set annually.

Temporarily Restricted Net Assets

The Center reports grants as restricted support if they are received with grantor stipulations, such as time restrictions or restrictions as to the nature of the program that limits the use of the grants. When a grantor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. As of December 31, 2012 and 2011, temporarily restricted net assets consist of grant revenues available for expenditure in future years.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Costs which cannot be specifically indentified with a particular function and which benefit more than one functional category are allocated on the basis of the portion of time expended by the staff on the various functions.

Note 1. Organization and Significant Accounting Policies (Concluded)

Income Taxes

The Center has received a determination letter from the Internal Revenue Service, which approves its status as a not-for-profit organization exempt from income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Center is not considered to be a private foundation under the provisions of the Internal Revenue Code.

The Center's tax returns filed subsequent to the year ended December 31, 2009 remain subject to examination by the tax jurisdiction where filed.

Uncertainty in income taxes recognized in the Center's financial statements is accounted for in accordance with the provisions of authoritative guidance issued by the FASB. Under this guidance, when tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others may be subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits, along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There was no liability for unrecognized tax benefits recognized in the statements of financial position at December 31, 2012 or 2011.

Note 2. Accounts Receivable

Accounts receivable consist of the following at December 31:

	2012	2011
Trade receivables	$ 911,269	$ 829,491
Allowance for book returns	(151,145)	(178,157)
Allowance for doubtful accounts	(9,113)	(8,295)
	$ 751,011	$ 643,039

Note 3. Inventory

Inventory consists of the following at December 31:

	2012	2011
Books for resale	$ 1,504,639	$ 1,611,184
Provision for write-downs	(127,978)	(144,577)
	$ 1,376,661	$ 1,466,607

Note 4. Royalty Advances

Royalty advances consist of the following at December 31:

	2012	2011
Royalty advances	$ 533,155	$ 598,926
Provision for write-downs	(174,012)	(220,338)
	$ 359,143	$ 378,588

Note 5. Property and Equipment

Property and equipment consists of the following at December 31:

	2012	2011
Equipment	$ 35,487	$ 30,839
Furniture and fixtures	27,758	17,464
Leasehold improvements	24,416	1,370
	$ 87,661	$ 49,673
Less: accumulated depreciation and amortization	(31,073)	(31,312)
	$ 56,588	$ 18,361

Note 6. Notes Payable

Notes payable consist of the following as of December 31:

	2012	2011
Loan payable to a private foundation with an original amount of $150,000 to be used for activities that foster environmentally and socially responsible business practices globally. The note requires semi-annual interest payments (at 1.00%) on March 31 and September 30. The principal portion is required to be paid by a $25,000 payment due on May 1, 2010 and subsequent monthly principal payments of $5,000 until the entire balance is repaid in full.	$ -	$ 25,000
Loan payable to a private foundation with an original amount of $100,000. The loan proceeds are to be used as needed as a bridge loan. The note requires quarterly interest payment at an annual rate of 2% of the unpaid principal, with the first payment of interest being due and payable on December 31, 2012. The principal will be paid in eleven equal monthly installments of $8,333 beginning January 31, 2014 and one final installment of $8,337 on December 31, 2014.	100,000	-
Total notes payable	$ 100,000	$ 25,000
Less: current portion	-	(25,000)
Noncurrent Portion	$ 100,000	$ -

Note 6. Notes Payable (Concluded)

As of December 31, 2012, the following is a schedule of future principal maturities of the notes payable:

Years Ending December 31,	
2013	$ -
2014	100,000
	$ 100,000

Note 7. Line of Credit

The Center has a line of credit agreement with a bank whereby the Center can borrow up to a maximum of $500,000. Borrowings under this line are due on demand, are secured by all of the Center's assets, and bear interest at the bank's prime rate plus 1.00%. The line of credit agreement requires the Center to maintain certain financial covenants. The line of credit agreement expires in October 2013. The outstanding balance under the line of credit was $250,000 and $0 at December 31, 2012 and 2011, respectively.

Note 8. Related Party Activities

During the years ended December 31, 2012 and 2011, the Center recorded grants from directors and their family members as follows:

Year Issued	Type of Grant	Grant Amount
2012	Unrestricted grants	$ 255,781
2012	Restricted grants	$ 56,219
2011	Unrestricted grants	$ 278,000
2011	Restricted grants	$ 102,000

Additionally, during the years ended December 31, 2012 and 2011, the Center recorded unrestricted contributions of $142,200 and $119,500, respectively, from various board members and their families. There were no grants and contributions receivable from related parties as of December 31, 2012 or 2011.

Note 9. Retirement Plan

The Center maintains the Island Press Defined Contribution Retirement Plan (the Plan), a defined contribution plan, for all employees with more than one year of service. The Plan allows for contributions up to the maximum allowable by law. Employer matching contributions are not required, but can be made at the election of the Center. Participants are fully and immediately vested in both employee and Center contributions as well as earnings and losses thereon. The Center made no contributions to the Plan for the years ended December 31, 2012 or 2011.

Note 10. Major Grantors

As of December 31, 2012, two grantors accounted for 75% of the total grants receivable balance. As of December 31, 2011, one grantor accounted for 77% of the grants receivable balance.

During the year ended December 31, 2012 six grantors accounted for 68% of total grant revenue. During the year ended December 31, 2011, four grantors accounted for 59% of total grant revenue.

Note 11. Commitments

As of December 31, 2012, the Center leased office space and equipment under the terms of noncancelable operating leases. The Center entered into a lease for office space which commenced in September 2012 and will continue for a period of ten years and three months at an initial base rent of $17,498 per month. Annual increases under the lease are two and one half percent each year, except for the sixth year, when the increase will be two dollars per square foot. The lease contains certain incentives in the form of a build-out allowance and an abatement of rent for the first ninety-nine days of the lease term. The scheduled future minimum lease payments required under operating leases that have initial or remaining terms in excess of one year are as follows:

Years Ending December 31,	
2013	$ 216,696
2014	221,192
2015	226,454
2016	232,003
2017	234,339
Thereafter	1,280,498
	$ 2,411,182

Note 11. Commitments (Concluded)

In accordance with accounting principles generally accepted in the United States of America, the Center is recognizing the total cost of its office space lease ratably over the lease period. The cumulative difference between rent paid and that expensed is reflected as deferred rent.

Rent expense totaled $211,865 and $188,041 for the years ended December 31, 2012 and 2011, respectively.

Note 12. Subsequent Events

The Center has evaluated events through June 27, 2013, the date the financial statements were available to be issued, and determined that there were no events occurring subsequent to December 31, 2012 that would have a material impact on the Center's results of operations or financial position.