BOOK ARTS PRESS, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2010

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE ▫ RICHMOND ▫ FREDERICKSBURG ▫ VERONA ▫ CHRISTIANSBURG

BOOK ARTS PRESS, INC.

FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2010

Table of Contents

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
BOOK ARTS PRESS, INC.
CHARLOTTESVILLE, VIRGINIA

We have audited the accompanying statement of financial position of Book Arts Press, Inc. (a nonprofit organization) as of September 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Book Arts Press, Inc. as of September 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
January 6, 2011

- Financial Statements -

Book Arts Press, Inc.
D/B/A Rare Book School

Statement of Financial Position
At September 30, 2010

Assets		
Current assets:		
Cash and cash equivalents	$	427,582
Investments		225,544
Inventory		6,044
Accounts receivable		16,228
Contributions and pledges receivable		8,200
Prepaid expense		1,839
Total current assets	$	685,437
Fixed assets:		
Equipment and software	$	25,855
Total	$	25,855
Less: Accumulated depreciation		(25,855)
Net fixed assets	$	-
Other:		
Permanently restricted investments	$	963,888
Total assets	$	1,649,325
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$	12,123
Accrued payroll		3,299
Tuition deposits		6,370
Total liabilities	$	21,792
Net assets:		
Unrestricted	$	504,923
Temporarily restricted		95,245
Permanently restricted		1,027,365
Total net assets	$	1,627,533
Total liabilities and net assets	$	1,649,325

The accompanying notes to financial statements are an integral part of this statement.

Book Arts Press, Inc.
D/B/A Rare Book School

Statement of Activities
For the Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:				
Individual contributions	$ 117,646	$ 7,650	$ 28,885	$ 154,181
Foundation/Educational/Governmental grants	40,889	-	141,000	181,889
In-kind contributions	260,181	-	-	260,181
Tuition	240,865	-	-	240,865
Merchandise sales revenue	7,223	-	-	7,223
Investment income	104,750	40,797	-	145,547
Other revenue	3,751	-	-	3,751
Net assets released from restrictions	85,987	(85,987)	-	-
Total revenues, gains and other support	$ 861,292	$ (37,540)	$ 169,885	$ 993,637
Expenses:				
Program	$ 547,416	$ -	$ -	$ 547,416
Management & general	127,853	-	-	127,853
Fundraising	86,264	-	-	86,264
Total expenses	$ 761,533	$ -	$ -	$ 761,533
Change in net assets	$ 99,759	$ (37,540)	$ 169,885	$ 232,104
Net assets at beginning of year	405,164	132,785	857,480	1,395,429
Net assets at end of year	$ 504,923	$ 95,245	$ 1,027,365	$ 1,627,533

The accompanying notes to financial statements are an integral part of this statement.

Book Arts Press, Inc.
D/B/A Rare Book School

Statement of Functional Expenses
For the Year Ended September 30, 2010

	Program	Management & General	Fund-Raising	Total
Salaries and wages	$ 122,674	$ 9,122	$ 19,730	$ 151,526
Employee benefits and payroll taxes	25,110	1,935	3,577	30,622
Collections and reference material	27,439	-	-	27,439
Conference and meetings	5,162	3,733	3,846	12,741
Cost of goods sold	2,495	-	-	2,495
Fees and Alumni Hall charges	908	13,987	250	15,145
Insurance	-	2,714	-	2,714
Miscellaneous expenses	8,709	-	-	8,709
Occupancy	10,792	2,445	1,774	15,011
Postage and delivery	4,190	683	1,704	6,577
Printing and publications	7,838	911	1,330	10,079
Professional development	11,488	-	-	11,488
Professional services	83,265	17,933	1,388	102,586
Supplies and expenses	33,798	4,590	3,330	41,718
Telecommunications	2,627	847	614	4,088
Travel	45,639	6,378	6,397	58,414
In-kind expenses:				
Salaries and wages	75,576	38,967	26,390	140,933
Employee benefits and payroll taxes	22,878	12,773	8,073	43,724
Donated goods	56,828	10,835	7,861	75,524
Total	$ 547,416	$ 127,853	$ 86,264	$ 761,533

The accompanying notes to financial statements are an integral part of this statement.

Book Arts Press, Inc.
D/B/A Rare Book School

Statement of Cash Flows
For the Year Ended September 30, 2010

Cash flows from operating activities		
Change in net assets	$	232,104
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Endowment contributions		(169,885)
Unrealized gain on investments		(85,881)
Change in inventory		1,347
Change in accounts receivable		(15,909)
Change in pledges receivable		40,665
Change in prepaid expenses		385
Change in accounts payable		1,515
Change in accrued payroll		1,848
Change in retirement plan payable		(518)
Change in tuition deposits		(5,015)
Net cash provided by (used in) operating activities	$	656
Cash flows from investing activities:		
Purchase of investments	$	(212,337)
Sale of investments		365
Net cash provided by (used in) investing activities	$	(211,972)
Cash flows from financing activities:		
Endowment contributions	$	169,885
Net cash provided by (used in) financing activities	$	169,885
Net increase (decrease) in cash	$	(41,431)
Cash balance at beginning of year		469,013
Cash balance at end of year	$	427,582

The accompanying notes to financial statements are an integral part of this statement.

NOTE 1 - NATURE OF ACTIVITIES:

Book Arts Press, Inc. (the "Organization"), which was incorporated in Virginia, provides continuing professional education for research librarians and archivists, academics, antiquarian booksellers, conservators and bookbinders, and book collectors. The Organization is supported primarily from direct public support, interest on investments, and sales of inventory.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation:

The Organization is required to report information regarding its financial position according to three classes of net assets as follows:

Unrestricted net assets – Net assets not subject to donor-imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Basis of Accounting:

The accompanying statement of financial position has been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor 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.

Contributions:

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Cash and Cash Equivalents:

Cash and cash equivalents include all cash on hand, cash in banks, and highly liquid investments with maturities of three months or less.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Investments:

Investments are in marketable equity securities with readily determinable fair values and stated at fair value.

Inventory:

The inventory of goods available for sale are stated at lower of cost or market (cost determined on a first-in, first-out cost basis). Donated inventory is stated at fair market value at the time of receipt. Fair market value is the cost the Organization would incur to purchase the inventory.

Receivables:

Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. There was no allowance for doubtful accounts at September 30, 2010.

Donated Goods and Services:

The value of donated goods and services received by the Organization for the year ended September 30, 2010 was $260,181. This amount does not include donated books and other materials for which appraisals were not obtained. Determining the value of these gifts would be too costly and time consuming for the Organization.

Fixed Assets:

Fixed assets are stated at cost and are depreciated on either a straight line basis or on a double-declining balance basis over their estimated useful lives. Estimated useful lives of the various assets are as follows:

Furniture and fixtures	5-7 Years
Equipment and software	3-7 Years

Fixed assets are defined by the Organization as assets with an initial, individual cost of more than $3,000 and an estimated useful life in excess of one year. The cost and accumulated depreciation on fixed assets are eliminated from the accounts when disposed of or sold and any resulting gain or loss is included in revenue and expenses. All fixed assets were fully depreciated as of September 30, 2010.

Income Taxes:
The Organization has received a tax determination letter from the Internal Revenue Service and is exempt from Federal and Virginia income taxes under Section 501(c)(3) of the Internal Revenue Code and related sections of the Virginia code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – PROMISES TO GIVE:

Unconditional promises to give are recorded at net realizable value. Included in the accompanying statement of financial position at September 30, 2010, are unconditional promises to give in the amount of $8,200. The entire amount is expected to be received within one year.

NOTE 4 – PREPAID EXPENSES:

As of September 30, 2010, prepaid expenses were composed of:

Printing	$	97
Postage		186
Insurance		1,556
Total prepaid expenses	$	1,839

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are available for the following purposes:

Operations	$	300
Scholarships		83,226
Collections		11,719
Total temporarily restricted net assets	$	95,245

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS:

Net assets were permanently restricted for the following purposes at September 30, 2010:

General endowment	$	998,329
Scholarship endowment		29,036
Total permanently restricted net assets	$	1,027,365

NOTE 7 – ENDOWMENT:

The organization's endowment consists of three funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the retention (preservation) of the 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, the Organization 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) accumulation 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 the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the organization 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 the organization 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 the organization
(7) The investment policies of the organization

NOTE 7 – ENDOWMENT: (CONTINUED)

Endowment Net Asset Composition by Type of Fund as of September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-designated endowment funds	$ 246,074	$ -	$ -	$ 246,074
Donor-restricted endowment funds	-	13,123	1,027,365	1,040,488
Total Funds	$ 246,074	$ 13,123	$ 1,027,365	$ 1,286,562

Changes in Endowment Net Assets for the Year Ended September 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 145,524	$ 9,074	$ 857,480	$ 1,012,078
Investment income:				
Total gains and (losses) (realized/unrealized)	$ 61,586	$ 23,529	$ -	$ 85,115
Interest and dividends	42,968	17,265	-	60,233
Total investment income	$ 104,554	$ 40,794	$ -	$ 145,348
Contributions	-	-	169,885	169,885
Account management and investment fees	(4,004)	(1,745)	-	(5,749)
Amounts appropriated for expenditure	-	(35,000)	-	(35,000)
Endowment net assets, end of year	$ 246,074	$ 13,123	$ 1,027,365	$ 1,286,562

Description of Amounts Classified as Permanently Restricted Net Assets (Endowment only)

Permanently Restricted Net Assets	
The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by UPMIFA	$ 1,027,365
Total endowment funds classified as permanently restricted net assets	$ 1,027,365

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no funds with deficiencies at September 30, 2010.

NOTE 7 – ENDOWMENT: (CONTINUED)

Return Objectives and Risk Parameters

The Organization's Board of Directors has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets that the organization must hold in perpetuity or for a donor-specified period as well as board-designated funds. Under this policy as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to accommodate investment styles and strategies that are considered reasonable and prudent, while providing long-term growth.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

Income is generally transferred to the operating account on an annual basis.

NOTE 8 – FAIR VALUE MEASUREMENTS:

Fair value for investments is determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

NOTE 8 – FAIR VALUE MEASUREMENTS: (CONTINUED)

According to FASB 157, "*Fair Value Measurement and Disclosures*", the Organization is providing the following information related to its investments.

		Fair Value Measurements at Reporting Date Using		
	9/30/10	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
UVA Investment Pool	$ 1,189,432	$ -	$ 1,189,432	$ -
Total	$ 1,189,432	$ -	$ 1,189,432	$ -

NOTE 9 – INVESTMENTS:

Investments consist of UVA pooled investment funds. Investment return for the year ended September 30, 2010 is as follows:

Dividend and interest income	$ 59,666
Net realized and unrealized gains	85,881
Management fees	(320)
Total	$ 145,227

Dividends and interest income and net realized and unrealized gains are reported on the Statement of Activities as investment income. Management fees are reported as fees and Alumni Hall charges on the Statement of Functional Expenses.

NOTE 10 – FINANCIAL RISK:

The Organization maintains cash balances that may exceed federally insured limits. The Organization does not believe that this practice results in any significant credit risk.

NOTE 11 – RETIREMENT PLAN:

The Organization has a 403(b) retirement plan. All full-time employees may participate in the plan. Participants may defer amounts from their salary not to exceed $16,500 per year. All full-time employees receive an employer contribution of 5% of gross compensation. Employer contributions were $3,436 for the year ended September 30, 2010.

NOTE 12 – SUBSEQUENT EVENTS:

In preparing these financial statements, management of the Organization has evaluated events and transactions for potential recognition or disclosure through January 6, 2011, the date the financial statements were available to be issued.