
SMALL PRESS DISTRIBUTION, INC.

FINANCIAL STATEMENTS

June 30, 2018

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

CROSBY & KANEDA
Certified Public Accountants

Dedicated to Nonprofit Organizations

SMALL PRESS DISTRIBUTION, INC.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Small Press Distribution, Inc.
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of Small Press Distribution, Inc., which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Small Press Distribution as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Small Press Distribution Inc.'s June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 29, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Crosby & Lamada CPAs LLP

Oakland, California

January 7, 2019

SMALL PRESS DISTRIBUTION, INC.

**Statement of Financial Position
June 30, 2018
(With Comparative Totals as of June 30, 2017)**

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 205,900	\$ 252,001
Accounts receivable, net (Note 3)	702,871	581,220
Grants Receivable	6,800	-
Prepaid expenses and other	14,554	8,462
Total Current Assets	<u>930,125</u>	<u>841,683</u>
Property and equipment, net (Note 4)	<u>5,924</u>	<u>10,368</u>
Total Assets	<u>\$ 936,049</u>	<u>\$ 852,051</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses (Note 5)	\$ 661,578	\$ 545,245
Deferred revenue	42,975	87,875
Total Liabilities	<u>704,553</u>	<u>633,120</u>
Commitments and Contingencies (Notes 7 and 8)		
Unrestricted net assets	<u>231,496</u>	<u>218,931</u>
Total Liabilities and Net Assets	<u>\$ 936,049</u>	<u>\$ 852,051</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

**Statement of Activities
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

	<u>2018</u>	<u>2017</u>
Support and Revenue		
Support		
Government awards	\$ 107,250	\$ 94,790
Contributions	24,837	26,700
Foundation and corporate	30,000	-
Fundraising event, net (Note 9)	12,695	12,291
Total Support	<u>174,782</u>	<u>133,781</u>
Revenue		
Consigned sales and distribution, net (Note 10)	893,686	787,045
Publishers' fees	124,350	113,598
Expired credits	45,734	31,307
Total Revenue	<u>1,063,770</u>	<u>931,950</u>
Total Support and Revenue	<u>1,238,552</u>	<u>1,065,731</u>
Expenses		
Program		
Marketing and Publisher Relations	403,360	222,683
Warehouse and Fulfillment Services	355,780	500,922
Public Programs	208,785	72,512
Total Program	<u>967,925</u>	<u>796,117</u>
Management and general	140,285	148,606
Fundraising	117,777	109,718
Total Expenses	<u>1,225,987</u>	<u>1,054,441</u>
Change in Net Assets	12,565	11,290
Unrestricted net assets, beginning of year	<u>218,931</u>	<u>207,641</u>
Unrestricted net assets, end of year	<u>\$ 231,496</u>	<u>\$ 218,931</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

Statement of Cash Flows
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 12,565	\$ 11,290
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	4,444	4,444
Change in assets and liabilities:		
Accounts receivable	(121,651)	(135,372)
Grants receivable	(6,800)	-
Prepaid expenses and other	(6,092)	716
Accounts payable and accrued expenses	116,333	169,500
Deferred revenue	(44,900)	41,977
Net cash provided (used) by operating activities	<u>(46,101)</u>	<u>92,555</u>
Net change in cash	(46,101)	92,555
Cash and cash equivalents, beginning of year	<u>252,001</u>	<u>159,446</u>
Cash and cash equivalents, end of year	<u>\$ 205,900</u>	<u>\$ 252,001</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

	Program	Management and General	Fundraising	Total	
				2018	2017
Salaries	\$ 447,512	\$ 57,270	\$ 38,160	\$ 542,942	\$ 488,131
Employee benefits	42,690	5,463	3,640	51,793	60,973
Payroll taxes	36,723	4,699	3,131	44,553	39,649
Total Personnel	<u>526,925</u>	<u>67,432</u>	<u>44,931</u>	<u>639,288</u>	<u>588,753</u>
Legal fees	-	677	-	677	651
Accounting fees	-	8,450	-	8,450	7,925
Other professional services	31,700	7,900	39,500	79,100	71,787
Advertising and promotion	22,466	2,918	3,793	29,177	21,833
Supplies and office expenses	128,558	30,889	6,744	166,191	136,108
Occupancy	112,098	3,558	2,972	118,628	82,712
Travel and meals	18,530	2,407	3,128	24,065	15,309
Conferences and meetings	12,391	-	-	12,391	9,558
Write-offs of delinquent	37,529	4,874	6,336	48,739	26,465
Depreciation	3,422	444	578	4,444	4,444
Insurance	14,255	1,678	377	16,310	14,590
Dues, bank and service fees	13,164	2,954	873	16,991	13,097
Information technology	46,887	6,104	8,545	61,536	61,209
Total Expenses	<u>\$ 967,925</u>	<u>\$ 140,285</u>	<u>\$ 117,777</u>	<u>\$ 1,225,987</u>	<u>\$ 1,054,441</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 1: NATURE OF ACTIVITIES

Small Press Distribution, Inc. (the Organization) is a California nonprofit public benefit corporation located in Berkeley, California. It was founded to nurture a cultural context in which the literary arts are valued and sustained. It accomplishes this mission by providing wholesaling services to independent presses and through public programs and advocacy efforts in order to provide the broadest possible distribution for the written word.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Basis of Presentation

The Organization presents information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The three classes are differentiated by donor restrictions.

Unrestricted net assets – consist of resources which have not been specifically restricted by a donor. Unrestricted net assets may be designated for specific purposes by the Organization or may be limited by contractual agreements with outside parties.

Temporarily restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. There were no temporarily restricted net assets at June 30, 2018.

Permanently restricted net assets – represent contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization, other asset enhancements and diminishments subject to the same kinds of stipulations or reclassifications from or to other classes of net assets as a consequence of donor-imposed stipulations. There were no permanently restricted net assets as of June 30, 2018.

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period the promise is received. Conditional promises to give are not recognized until they become unconditional; that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of contribution. Contributions to be received after one year are discounted at an appropriate rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

Unrestricted contributions and grants are recorded as unrestricted revenue when received. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Income Taxes

The Internal Revenue Service and the California Franchise Tax Board have determined that the Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code Section 23701(d). The Organization has evaluated its current tax positions as of June 30, 2018 and is not aware of any significant uncertain tax positions for which a reserve would be necessary. The Organization's tax returns are generally subject to examination by federal and state taxing authorities for three and four years, respectively after they are filed.

Contributed Services

Contributed services are reflected in the financial statements at the fair value of the services received only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. There were no contributed services for the year ended June 30, 2018.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all money market funds and other highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Fair Value Measurements

Fair value is defined 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 on the measurement date. The Organization determines the fair values of its assets and liabilities based on a fair value hierarchy that includes three levels of inputs that may be used to measure fair value.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

Level 2 - Inputs other than quoted market prices that are observable for the asset or liability, either directly or indirectly.

Level 3 - Unobservable inputs for the assets or liability.

The Organization had no assets or liabilities recorded at fair value on June 30, 2018.

Property and Equipment

All acquisitions of property and equipment in excess of \$1,000 and all expenditures for repairs and maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are stated at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over a 4-year period for website improvements.

Inventory

Inventory consists primarily of books on consignment from publishers held to fulfill orders from bookstores, other distributors and individuals. Books held by the Organization are not property of the Organization and are not recognized as an asset of the Organization. The Organization warehouses in excess of 335,000 items.

Deferred Revenue

Deferred revenue includes annual publisher fees that have not been fully earned and funds received in excess of books shipped less returns resulting in customer credit balances. Customer credits may be used to purchase books, and expire after one year from date of issue.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year's summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

Subsequent Events

The Organization has evaluated subsequent events and has concluded that as of January 7, 2019 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Accounts receivable from publishers	\$ 99,691	\$ 90,004
Royalty advances	38,000	36,000
Accounts receivable – trade	742,400	573,673
Less allowance for sales returns	(58,555)	(50,917)
Less allowance for doubtful accounts	<u>(118,665)</u>	<u>(67,540)</u>
Total	<u>\$ 702,871</u>	<u>\$ 581,220</u>

Trade Receivable Aging

Trade accounts receivable aging was as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Amounts outstanding <=180 days	\$ 550,233	\$ 413,249
Amounts outstanding > 180 days <= 360 days	84,325	67,454
Amounts outstanding > 360 days	<u>107,842</u>	<u>92,970</u>
Total	<u>\$ 742,400</u>	<u>\$ 573,673</u>

Allowance for Doubtful Accounts

The Organization recognizes an allowance for doubtful accounts based on a review of amounts outstanding at year-end by customer and the time such amounts have been outstanding. The Organization has historically absorbed costs of uncollectible accounts out of its own funds as a service to the presses whose books it distributes.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Website	\$ 17,775	\$ 17,775
Less accumulated depreciation	<u>(11,851)</u>	<u>(7,407)</u>
Total	<u>\$ 5,924</u>	<u>\$ 10,368</u>

NOTE 5: ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The Organization accrues a provisional liability to each publisher in the quarter in which materials are shipped to bookstores. Such amounts become payable to publishers after the end of the following quarter, offset by any sales returns. Accounts payable and accrued expenses consisted of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Amounts accrued for provisional sales	\$ 551,113	\$ 470,790
Accounts payable, including amounts due to publishers for completed sales	<u>110,465</u>	<u>74,455</u>
Total	<u>\$ 661,578</u>	<u>\$ 545,245</u>

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 6: LINE OF CREDIT

As of June 30, 2018 the Organization had a \$100,000 unsecured line of credit to be drawn down as needed, with interest of 7.75% subject to annual renewal. There was no balance outstanding as of June 30, 2018 or 2017.

NOTE 7: COMMITMENTS

Operating Leases

The Organization leases office space under a non-cancelable lease that expires on June 30, 2020. Future minimum lease payments were as follows for the years ended June 30.

2019	\$ 98,880
2020	<u>104,808</u>
Total	<u>\$ 203,688</u>

Rent for the years ended June 30, 2018 and 2017 was \$96,000 and \$63,600, respectively.

NOTE 8: CONTINGENCIES

Compliance with Donor Restrictions

Grant awards require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of the funds to the grantors. The Organization deems this contingency remote since by accepting the grants and their terms, it has accommodated the objectives of the Organization to the provisions of the grants. The Organization's management is of the opinion that the Organization has complied with the terms of all grants.

Sales Returns

The Organization recognizes revenue when distributing items, with an allowance for sales returns. Actual sales returns may vary from historical returns. In the event that more returns are received, the Organization may be required to increase its deferred revenue to recognize credits issued on returned items. Returns are only eligible for credit that expires after one year.

NOTE 9: FUNDRAISING EVENT

The Organization hosts an annual fundraising event. Activity related to the event was as follows for the years ended June 30:

	<u>2018</u>	<u>2017</u>
Admission	\$ 1,800	\$ 1,800
Auction items – donated	-	530
Contributions	13,644	12,575
Less cost of direct donor benefit	<u>(2,749)</u>	<u>(2,614)</u>
Total	<u>\$ 12,695</u>	<u>\$ 12,291</u>

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)**

NOTE 10: CONSIGNED BOOK SALES AND DISTRIBUTION FEES

The Organization charges a distribution fee on a sliding scale based on the selling price of items distributed. Additional distribution fee income includes freight and other costs charged to customers who are not able to arrange pickup using their own carrier. Activity related to the distribution of consigned items was as follows for the year ended June 30, 2018:

Consigned book sales	\$ 2,419,594
Freight and other fees	70,239
Returns and provision for future returns	(404,134)
Provision for delinquent accounts	(51,125)
Payments to publishers	<u>(1,140,888)</u>
Total	<u>\$ 893,686</u>

NOTE 11: CONCENTRATIONS

Accounts Receivable

Accounts receivable consist principally of amounts due from booksellers and distributors. As of June 30, 2018 56% of accounts receivable consisted of amounts due from three large customers. Failure to pay by these customers may result in an impact to the Organization and its partner presses.

Cash and Cash Equivalents

At times during the year ended June 30, 2018 the Organization had deposits in excess of federally insured limits.

NOTE 12: RELATED PARTY ACTIVITY

The Organization has a cost sharing agreement with Community of Literary Magazines and Presses (CLMP), a related 501(c)3 organization. The Executive Director of the Organization is employed by CLMP, and the Organization reimburses CLMP for their services. During the year ended June 30, 2018, the total compensation to the Executive director was approximately \$79,000.