
SMALL PRESS DISTRIBUTION, INC.

FINANCIAL STATEMENTS

June 30, 2019

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

CROSBY & KANEDA

Certified Public Accountants
for 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, 2019, 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, 2019, 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, 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 7, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Croody & Lameda CPAs LLP

Oakland, California

January 2, 2020

SMALL PRESS DISTRIBUTION, INC.

Statement of Financial Position
June 30, 2019
(With Comparative Totals as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 136,021	\$ 205,900
Accounts receivable, net (Note 3)	611,784	658,871
Press loans receivables (Note 4)	32,000	44,000
Contributions receivable	7,550	6,800
Deposits and other assets	13,531	14,554
Property and equipment, net (Note 5)	-	5,924
Total Assets	<u>\$ 800,886</u>	<u>\$ 936,049</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 42,815	\$ 110,465
Provisional press payables	535,255	546,104
Accrued vacation	5,406	5,009
Deferred revenue	57,308	42,975
Total Liabilities	<u>640,784</u>	<u>704,553</u>
Net assets without donor restrictions	<u>160,102</u>	<u>231,496</u>
Total Liabilities and Net Assets	<u>\$ 800,886</u>	<u>\$ 936,049</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

**Statement of Activities
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	2019	2018
Support and Revenue		
Support		
Government awards	\$ 97,500	\$ 107,250
Contributions	25,947	24,837
Foundation and corporate	6,000	30,000
Fundraising event, net (Note 9)	12,534	12,695
Total Support	141,981	174,782
Revenue		
Consigned sales and distribution, net (Note 10)	967,320	893,686
Publishers' fees	136,666	124,350
Expired credits	20,905	45,734
Total Revenue	1,124,891	1,063,770
Total Support and Revenue	1,266,872	1,238,552
 Expenses		
Program		
Marketing and publisher relations	300,746	288,345
Warehouse and fulfillment services	681,687	606,889
Public programs	75,830	72,691
Total Program	1,058,263	967,925
Management and general	126,554	140,285
Fundraising	153,449	117,777
Total Expenses	1,338,266	1,225,987
 Change in Net Assets	(71,394)	12,565
Net assets without donor restrictions, beginning of year	231,496	218,931
Net assets without donor restrictions, end of year	\$ 160,102	\$ 231,496

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

Statement of Cash Flows
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (71,394)	\$ 12,565
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	5,924	4,444
Change in assets and liabilities:		
Accounts receivable	47,087	(88,651)
Contributions receivable	(750)	(6,800)
Deposits and other assets	1,023	(6,092)
Accounts payable and accrued expenses	(67,650)	36,010
Provisional press payables	(10,849)	80,323
Accrued vacation	397	-
Deferred revenue	14,333	(44,900)
Net cash provided (used) by operating activities	<u>(81,879)</u>	<u>(13,101)</u>
Cash flows from investing activities:		
Cash advances to publishers	(2,000)	(33,000)
Cash repayments from publishers	14,000	-
Net cash provided (used) by investing activities	<u>12,000</u>	<u>(33,000)</u>
Net change in cash and cash equivalents	(69,879)	(46,101)
Cash and cash equivalents, beginning of year	<u>205,900</u>	<u>252,001</u>
Cash and cash equivalents, end of year	<u>\$ 136,021</u>	<u>\$ 205,900</u>

SMALL PRESS DISTRIBUTION, INC.

**Statement of Functional Expenses
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

	Program	Management and General	Fundraising	Total	
				2019	2018
Salaries	\$ 502,025	\$ 43,064	\$ 97,679	\$ 642,768	\$ 542,942
Employee benefits	42,091	7,015	9,355	58,461	51,793
Payroll taxes	41,745	6,957	9,277	57,979	44,553
Total Personnel	<u>585,861</u>	<u>57,036</u>	<u>116,311</u>	<u>759,208</u>	<u>639,288</u>
Professional service fees	21,893	10,762	4,155	36,810	88,227
Advertising and promotion	27,227	3,536	4,597	35,360	29,177
Supplies and office expenses	52,882	11,556	2,735	67,173	54,102
Information technology	50,733	6,589	8,564	65,886	61,536
Occupancy	112,849	2,994	3,891	119,734	118,628
Travel and meals	20,071	2,607	258	22,936	20,235
Conferences and meetings	14,426	-	-	14,426	16,221
Insurance	15,766	1,536	544	17,846	16,310
Depreciation	4,561	592	771	5,924	4,444
Dues, licenses, service fees	10,602	2,206	576	13,384	16,992
Freight, postage and delivery	109,522	23,001	5,665	138,188	112,088
Write-offs of delinquent accounts	31,870	4,139	5,382	41,391	48,739
Expense by Function	<u>1,058,263</u>	<u>126,554</u>	<u>153,449</u>	<u>1,338,266</u>	<u>1,225,987</u>
Expenses reported on a net basis on the statement of activities					
Event expenses	-	-	3,132	3,132	2,749
Total Expenses	<u>\$ 1,058,263</u>	<u>\$ 126,554</u>	<u>\$ 156,581</u>	<u>\$ 1,341,398</u>	<u>\$ 1,228,736</u>

See Notes to the Financial Statements

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

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).

Net Assets

The financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

Net assets without donor restrictions – are resources available to support operations. The only limits on the use of the net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Net assets with donor restrictions – are resources that are restricted by a donor for use for a particular purpose or in a particular period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; There were no restrictions of this nature as of June 30, 2019.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor imposed restrictions. Net assets restricted for acquisition of building or equipment (or less commonly, the contribution of those net assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Organization, unless the donor provides more specific directions about the period of its use.

Classification of Transactions

All revenues and net gains are reported as increases in net assets without donor restrictions in the statement of activities unless the donor specified the use of the related resources for a particular purpose or in a future period. All expenses and net losses are reported as decreases in net assets without donor restrictions.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

Accounting for Contributions

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in net assets without donor restrictions unless the contributed assets are specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in net assets with donor restrictions. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as restricted until payment is due, unless the contribution is clearly intended to support activities of the current fiscal year. Conditional promises are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Accounting for Restrictions Met in the Same Reporting Period

The Organization has elected to treat contributions received with donor restrictions whose restrictions are met within the same reporting period as unrestricted contributions for purposes of the statement of activities.

Contributions Receivable

Contributions receivable including pledges and grants receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using a present value technique applied to anticipated cash flows. The Organization has evaluated the value of the discount and concluded that it was not material for recognition. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

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, 2019 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, 2019.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals 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.

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, 2019.

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 3-year period for website improvements.

Publisher Loans receivable

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.

Provisional Press Payables

The Organization accrues a provisional liability to each press 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.

SMALL PRESS DISTRIBUTION, INC.

Notes to the Financial Statements For the Year Ended June 30, 2019 (With Comparative Totals for the Year Ended June 30, 2018)

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.

Expense Recognition and Allocation

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions using a reasonable allocation method that is consistently applied as follows:

Our personnel census is used to derive the standard distribution percentage. Salaries and wages are divided into the three program areas and into G&A or Fundraising based on direct interviews with staff by key personnel about their labor time, backed up by audits by directors and managers of those roles and labor expenditures. The standard distribution percentage is then used to derive SFE divisions of payroll taxes, benefits, overall salaries and wages, etc.

For occupancy, 75% of total costs are put into Warehouse program, the rest distributed according to standard distribution. Interest is put entirely into G&A. Depreciation, and amortization would be allocated through the standard distribution if there was any.

Telephone and internet services, insurance, and supplies and miscellaneous expenses that cannot be directly identified are allocated on the basis of the standard distribution percentage.

Management and general expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct fundraising activities in conjunction with its other activities. In the few cases in which it does, such as when the annual report or donor acknowledgments contain requests for contributions, joint costs have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

Changes in Accounting Principles

The Organization implemented FASB ASU No. 2016-14 in the current year, applying the changes retrospectively. The new standards change the following aspects of the financial statements:

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.

The unrestricted net asset class has been renamed net assets without donor restrictions.

The financial statements include a disclosure about liquidity and availability of resources.

The changes have the following effect on net assets at June 30, 2018:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 231,496	\$ -
Temporarily restricted net assets	-	-
Net assets without donor restrictions	-	231,496
Net assets with donor restrictions	-	-
Total	<u>\$ 231,496</u>	<u>\$ 231,496</u>

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, 2018, 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 2, 2020 the date that the financial statements were available to be issued, there were no significant subsequent events to disclose.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Press advances and receivables	\$ 117,028	\$ 93,691
Accounts receivable – trade	692,161	742,400
Less allowance for sales returns	(75,405)	(58,555)
Less allowance for doubtful accounts	<u>(122,000)</u>	<u>(118,665)</u>
Total	<u>\$ 611,784</u>	<u>\$ 658,871</u>

Trade Receivable Aging

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

	<u>2019</u>	<u>2018</u>
Amounts outstanding <=180 days	\$ 509,248	\$ 550,233

SMALL PRESS DISTRIBUTION, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

Amounts outstanding > 180 days <= 360 days	63,819	84,325
Amounts outstanding > 360 days	<u>119,094</u>	<u>107,842</u>
Total	<u>\$ 692,161</u>	<u>\$ 742,400</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: PRESS LOANS RECEIVABLE

The Organization at times may advance loans to presses to assist with printing or other expenses. Press loans receivable consisted of amounts outstanding to 4 presses of \$32,000 and \$44,000 as of June 30, 2019 and 2018, respectively. The loans bear minimal or no interest and may be secured by provisional press payables.

NOTE 5: PROPERTY AND EQUIPMENT

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

	<u>2019</u>	<u>2018</u>
Website	\$ 17,775	\$ 17,775
Less accumulated depreciation	<u>(17,775)</u>	<u>(11,851)</u>
Total	<u>\$ -</u>	<u>\$ 5,924</u>

NOTE 6: LINE OF CREDIT

As of June 30, 2019 the Organization had a \$100,000 line of credit to be drawn down as needed, with interest of 8.75% subject to annual renewal. There was no balance outstanding as of June 30, 2019 or 2018.

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 \$104,808.

Rent for the years ended June 30, 2019 and 2018 was \$98,880 and \$96,000, 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.

SMALL PRESS DISTRIBUTION, INC.

Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)

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>2019</u>	<u>2018</u>
Admission	\$ 9,421	\$ 1,800
Raffle	745	-
Contributions and sponsorships	5,500	13,644
Less cost of direct donor benefit	<u>(3,132)</u>	<u>(2,749)</u>
Total	<u>\$ 12,534</u>	<u>\$ 12,695</u>

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, 2019:

Consigned book sales	\$ 2,628,234
Freight and other fees	76,679
Returns and provision for future returns	(519,942)
Payments to publishers	<u>(1,217,651)</u>
Total	<u>\$ 967,320</u>

NOTE 11: CONCENTRATIONS

Accounts Receivable

Accounts receivable consist principally of amounts due from booksellers and distributors. As of June 30, 2019, 62% 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, 2019 the Organization had deposits in excess of federally insured limits.

SMALL PRESS DISTRIBUTION, INC.

**Notes to the Financial Statements
For the Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)**

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, 2019, the total compensation to the Executive director was approximately \$25,546.

NOTE 11: LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of June 30, 2019 are:

Financial assets:	
Cash and cash equivalents	\$ 136,021
Accounts receivable, net	611,784
Publisher loans receivable	32,000
Contributions receivable	<u>7,550</u>
Amount available for general expenditures within one year	<u>\$ 787,355</u>