

GRAYWOLF PRESS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2019 AND 2018

**GRAYWOLF PRESS
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YEARS ENDED DECEMBER 31, 2019 AND 2018**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Graywolf Press
Minneapolis, Minnesota

We have audited the accompanying financial statements of Graywolf Press, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, functional expense, and cash flows for the years 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 audits. We conducted our audits 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 auditors' 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.

Board of Directors
Graywolf Press

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graywolf Press as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Minneapolis, Minnesota
April 29, 2020

**GRAYWOLF PRESS
BALANCE SHEETS
DECEMBER 31, 2019 AND 2018**

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 2,645,853	\$ 2,094,934
Accounts Receivable, Net	867,028	1,147,649
Grants Receivable	133,207	192,813
Short-Term Pledges Receivable	378,609	302,007
Prepaid Expense	52,038	65,203
Royalty Advances	762,786	546,397
Inventory - Net	546,415	438,146
Total Current Assets	5,385,936	4,787,149
Long-Term Pledges Receivable	616,788	726,238
Property and Equipment, Net	58,811	91,232
Total Assets	\$ 6,061,535	\$ 5,604,619
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 77,511	\$ 54,984
Accrued Expense	4,528	3,745
Royalty Payable	427,230	404,801
Deferred Sales Revenue	387,383	538,480
Total Current Liabilities	896,652	1,002,010
NET ASSETS		
Without Donor Restrictions:		
Undesignated	807,610	797,263
Board Designated	3,122,000	2,472,000
Total Without Donor Restrictions:	3,929,610	3,269,263
With Donor Restrictions	1,235,273	1,333,346
Total Net Assets	5,164,883	4,602,609
Total Liabilities and Net Assets	\$ 6,061,535	\$ 5,604,619

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019				Total
	Operations	Board Designated	Without Donor Restrictions	With Donor Restrictions	
SUPPORT AND REVENUE					
Contributions	\$ 402,822	\$ -	\$ 402,822	\$ 634,780	\$ 1,037,602
Grants from Governmental Agencies	-	-	-	224,998	224,998
Book Revenue - Net of Returns	3,877,321	-	3,877,321	-	3,877,321
Special Event Income (Net of Expense of \$101,392 and \$28,383 in 2019 and 2018, Respectively)	89,749	-	89,749	-	89,749
Rights Revenue	209,016	-	209,016	-	209,016
Investment Income	27,726	-	27,726	524	28,250
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	193,458	-	193,458	(193,458)	-
Satisfaction of Time Restrictions	764,917	-	764,917	(764,917)	-
Total Support and Revenue	<u>5,565,009</u>	<u>-</u>	<u>5,565,009</u>	<u>(98,073)</u>	<u>5,466,936</u>
EXPENSE					
Program Services:					
Editorial Services	699,965	-	699,965	-	699,965
Cost of Sales	2,591,396	-	2,591,396	-	2,591,396
Promotion and Marketing Services	922,818	-	922,818	-	922,818
Total Program Services	<u>4,214,179</u>	<u>-</u>	<u>4,214,179</u>	<u>-</u>	<u>4,214,179</u>
Support Services:					
Management and General	261,091	-	261,091	-	261,091
Development	429,392	-	429,392	-	429,392
Total Support Services	<u>690,483</u>	<u>-</u>	<u>690,483</u>	<u>-</u>	<u>690,483</u>
Total Expense	<u>4,904,662</u>	<u>-</u>	<u>4,904,662</u>	<u>-</u>	<u>4,904,662</u>
CHANGE IN NET ASSETS BEFORE TRANSFERS	660,347	-	660,347	(98,073)	562,274
TRANSFER OF DESIGNATED FUNDS	<u>(650,000)</u>	<u>650,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN NET ASSETS AFTER TRANSFERS	10,347	650,000	660,347	(98,073)	562,274
Net Assets - Beginning of Year	<u>797,263</u>	<u>2,472,000</u>	<u>3,269,263</u>	<u>1,333,346</u>	<u>4,602,609</u>
NET ASSETS - END OF YEAR	<u>\$ 807,610</u>	<u>\$ 3,122,000</u>	<u>\$ 3,929,610</u>	<u>\$ 1,235,273</u>	<u>\$ 5,164,883</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED DECEMBER 31, 2019 AND 2018

2018				
Operations	Board Designated	Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,171,012	\$ -	\$ 1,171,012	\$ 811,421	\$ 1,982,433
-	-	-	217,061	217,061
3,714,079	-	3,714,079	-	3,714,079
28,002	-	28,002	-	28,002
226,817	-	226,817	-	226,817
6,850	-	6,850	767	7,617
105,000	-	105,000	(105,000)	-
316,711	-	316,711	(316,711)	-
5,568,471	-	5,568,471	607,538	6,176,009
633,522	-	633,522	-	633,522
2,695,336	-	2,695,336	-	2,695,336
832,803	-	832,803	-	832,803
4,161,661	-	4,161,661	-	4,161,661
233,122	-	233,122	-	233,122
323,522	-	323,522	-	323,522
556,644	-	556,644	-	556,644
4,718,305	-	4,718,305	-	4,718,305
850,166	-	850,166	607,538	1,457,704
(835,000)	835,000	-	-	-
15,166	835,000	850,166	607,538	1,457,704
782,097	1,637,000	2,419,097	725,808	3,144,905
<u>\$ 797,263</u>	<u>\$ 2,472,000</u>	<u>\$ 3,269,263</u>	<u>\$ 1,333,346</u>	<u>\$ 4,602,609</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2019

	2019							
	Program Services			Support Services				
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development	Total Support Services	Total All Services
Salaries	\$ 404,362	\$ -	\$ 400,032	\$ 804,394	\$ 129,927	\$ 151,581	\$ 281,508	\$ 1,085,902
Employee Benefits	80,470	-	79,604	160,074	25,958	30,284	56,242	216,316
Payroll Taxes	28,887	-	28,577	57,464	9,318	10,872	20,190	77,654
Total Personnel Costs	<u>513,719</u>	<u>-</u>	<u>508,213</u>	<u>1,021,932</u>	<u>165,203</u>	<u>192,737</u>	<u>357,940</u>	<u>1,379,872</u>
Cost of Goods Sold	-	831,163	-	831,163	-	-	-	831,163
Royalty Expense	-	869,435	-	869,435	-	-	-	869,435
Distribution Fees	-	890,798	-	890,798	-	-	-	890,798
Contract Services	31,367	-	22,881	54,248	2,888	73,197	76,085	130,333
Promotion Expense	-	-	151,363	151,363	-	29,483	29,483	180,846
Donor Recognition	-	-	-	-	-	34,218	34,218	34,218
Postage	18,948	-	60,237	79,185	706	17,136	17,842	97,027
Occupancy	22,885	-	22,639	45,524	7,382	8,613	15,995	61,519
Advertising and Commissions	-	-	14,417	14,417	39,157	-	39,157	53,574
Meetings and Entertainment	12,015	-	6,639	18,654	1,108	7,965	9,073	27,727
Dues and Subscriptions	3,648	-	7,273	10,921	-	11,797	11,797	22,718
Office Supplies	10,014	-	9,906	19,920	3,222	3,769	6,991	26,911
Travel	41,002	-	27,423	68,425	-	19,951	19,951	88,376
Complimentary Copies	-	-	21,907	21,907	-	-	-	21,907
Catalog Expense	-	-	13,465	13,465	-	-	-	13,465
Award Submissions	-	-	10,447	10,447	-	-	-	10,447
Telephone and Internet	5,957	-	5,893	11,850	1,922	2,242	4,164	16,014
Audit	-	-	-	-	14,728	2,398	17,126	17,126
Insurance	12,733	-	12,596	25,329	4,107	4,792	8,899	34,228
Bank Fees	4,568	-	4,519	9,087	1,474	1,719	3,193	12,280
Printing and Copying	3,026	-	2,993	6,019	975	1,139	2,114	8,133
Website/Database	3,776	-	3,735	7,511	1,218	1,421	2,639	10,150
Special Event	-	-	-	-	-	15,596	15,596	15,596
Legal Fees	-	-	-	-	13,959	-	13,959	13,959
Bad Debt Expense	-	-	-	-	2,000	-	2,000	2,000
Depreciation	16,307	-	16,272	32,579	1,042	1,219	2,261	34,840
Total Expense	<u>\$ 699,965</u>	<u>\$ 2,591,396</u>	<u>\$ 922,818</u>	<u>\$ 4,214,179</u>	<u>\$ 261,091</u>	<u>\$ 429,392</u>	<u>\$ 690,483</u>	<u>\$ 4,904,662</u>

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2018**

	2018							
	Program Services			Support Services				
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development	Total Support Services	Total All Services
Salaries	\$ 369,986	\$ -	\$ 361,498	\$ 731,484	\$ 114,843	\$ 142,530	\$ 257,373	\$ 988,857
Employee Benefits	65,152	-	63,658	128,810	20,223	25,099	45,322	174,132
Payroll Taxes	27,255	-	26,630	53,885	8,461	10,500	18,961	72,846
Total Personnel Costs	<u>462,393</u>	<u>-</u>	<u>451,786</u>	<u>914,179</u>	<u>143,527</u>	<u>178,129</u>	<u>321,656</u>	<u>1,235,835</u>
Cost of Goods Sold	-	904,365	-	904,365	-	-	-	904,365
Royalty Expense	3,500	820,323	-	823,823	-	-	-	823,823
Distribution Fees	-	918,269	-	918,269	-	-	-	918,269
Contract Services	22,634	-	16,748	39,382	1,508	53,611	55,119	94,501
Promotion Expense	-	-	145,077	145,077	-	14,389	14,389	159,466
Donor Recognition	-	-	-	-	-	13,852	13,852	13,852
Postage	21,016	-	67,581	88,597	566	11,110	11,676	100,273
Occupancy	22,067	-	21,561	43,628	6,850	8,501	15,351	58,979
Advertising and Commissions	-	52,379	-	52,379	36,653	-	36,653	89,032
Meetings and Entertainment	6,108	-	3,377	9,485	517	6,692	7,209	16,694
Dues and Subscriptions	6,202	-	7,359	13,561	-	8,812	8,812	22,373
Office Supplies	7,619	-	7,446	15,065	2,366	2,934	5,300	20,365
Travel	41,789	-	20,085	61,874	-	12,526	12,526	74,400
Complimentary Copies	-	-	27,848	27,848	-	-	-	27,848
Catalog Expense	-	-	16,027	16,027	-	-	-	16,027
Award Submissions	-	-	8,485	8,485	-	-	-	8,485
Telephone and Internet	6,354	-	6,209	12,563	1,972	2,448	4,420	16,983
Audit	-	-	-	-	16,987	-	16,987	16,987
Insurance	9,499	-	9,282	18,781	2,949	3,659	6,608	25,389
Bank Fees	3,317	-	3,241	6,558	1,030	1,278	2,308	8,866
Printing and Copying	3,135	-	3,063	6,198	973	1,208	2,181	8,379
Website/Database	7,892	-	7,711	15,603	2,450	3,040	5,490	21,093
Special Event	-	-	-	-	-	-	-	-
Legal Fees	-	-	-	-	11,200	-	11,200	11,200
Bad Debt Expense	-	-	-	-	2,500	-	2,500	2,500
Depreciation	9,997	-	9,917	19,914	1,074	1,333	2,407	22,321
Total Expense	<u>\$ 633,522</u>	<u>\$ 2,695,336</u>	<u>\$ 832,803</u>	<u>\$ 4,161,661</u>	<u>\$ 233,122</u>	<u>\$ 323,522</u>	<u>\$ 556,644</u>	<u>\$ 4,718,305</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 562,274	\$ 1,457,704
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	34,840	22,321
Change in Royalty Advances Reserve	22,429	34,229
Change in Sales Return Reserve	(151,097)	100,172
Change in Reserve for Obsolete Inventory	87,443	64,546
(Increase) Decrease in Current Assets:		
Accounts Receivable	280,621	(234,542)
Pledges Receivable	32,848	(668,361)
Grants Receivable	59,606	43,100
Royalty Advances	(216,389)	(8,189)
Inventory	(195,712)	(40,353)
Prepaid Expense	13,165	(13,876)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	22,527	848
Accrued Salaries Payable	783	2,013
Net Cash Provided by Operating Activities	553,338	759,612
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	(2,419)	(85,114)
 NET INCREASE IN CASH AND CASH EQUIVALENTS	550,919	674,498
Cash and Cash Equivalents - Beginning of Year	2,094,934	1,420,436
 CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 2,645,853	\$ 2,094,934

See accompanying Notes to Financial Statements.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational Purpose

Graywolf Press (Graywolf) is a leading independent publisher committed to the discovery and energetic publication of twenty-first century American and international literature. We champion outstanding writers at all stages of their careers to ensure that adventurous readers can find underrepresented and diverse voices in a crowded marketplace. We believe works of literature nourish the reader's spirit and enrich the broader culture, and that they must be supported by attentive editing, compelling design, and creative promotion.

Founded in 1974, Graywolf publishes between 30 and 35 books each year, divided equally across poetry, fiction, and nonfiction. We are known for supporting both emerging and established writers who use diverse and ambitious literary forms to broaden understanding of our contemporary world.

Graywolf Press published 31 in 2019 and acquired 22 new manuscripts by authors from around the world. We reached 680,000 readers with outstanding contemporary literature, achieving over \$3.8 million in book sales. Graywolf authors and staff members participated in over 440 literary events across the US in 2019, reaching a live audience of approximately 25,000 people at bookstores, conferences, festivals, universities, and other venues.

Twenty-nine Graywolf books and authors were recognized by the literary field with awards and honors in 2019, demonstrating the excellence of our publishing program and impact of our work. Anna Burns was awarded the National Book Critics Circle Award in Fiction for *Milkman*, which had previously won the 2018 Booker Prize (UK). Max Porter's *Lanny* was longlisted for the 2019 Booker Prize. Two titles were longlisted for National Book Awards in the category for Translated Literature: *The Collector of Leftover Souls* by Eliane Brum (translated by Diane Groszklaus Whitty) and *Space Invaders* by Nona Fernández (translated by Natasha Wimmer). *Be Recorder* by Carmen Giménez Smith and *Deaf Republic* by Ilya Kaminsky were finalists for the National Book Award in Poetry, and the New York Times named *Deaf Republic* to its list of 100 Notable Books of 2019.

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on donor-imposed restrictions. Accordingly, net assets of Graywolf and changes therein are classified and reported as:

Without Donor Restrictions – Undesignated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources.

Without Donor Restrictions – Board-Designated Net Assets – Those resources not subject to donor-imposed restrictions. The board of directors has discretionary control over these resources and has set them aside for a particular purpose.

With Donor Restrictions – Those resources subject to donor-imposed restrictions which will be satisfied by action of Graywolf or passage of time. These resources may also include resources whose use must be held in perpetuity.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation (Continued)

When a time restriction expires or a purpose restriction is accomplished, with donor restrictions net assets are reclassified to without donor restriction net assets and reported in the statement of activities as net assets released after satisfaction from restrictions.

Cash and Cash Equivalents

Graywolf defines cash and cash equivalents as highly liquid, short-term investments with a maturity at the date of acquisition of three months or less. At December 31, 2019 and 2018, Graywolf held funds at a local financial institution in excess of federally insured limits.

Receivables

Accounts, grants, and contributions receivable are stated at net realizable value. Bad debts are provided on the reserve method based on historical experience and management's evaluation of outstanding receivables at the end of each year. When all collection efforts have been exhausted, the accounts are written off against the related allowance. At December 31, 2019 and 2018, the allowance for accounts receivable was \$-0-. See Note 3 for allowance related to pledges receivable.

Inventory

Inventory consists of published books and books in the process of being published. Inventory is valued at lower of cost, determined on a first-in, first-out basis or net realizable value. A reserve for obsolete inventory has been recorded for books that may be unsaleable based on historical data. The reserve for obsolescence was \$1,215,765 and \$1,128,322 at December 31, 2019 and 2018, respectively.

Royalty Advances

Graywolf provides authors with royalty advances against future book sales. These advances are then expensed when the authors' books are published. Royalty advances were \$762,786 and \$546,397 at December 31, 2019 and 2018, respectively.

Property and Equipment

All major expenditures for property and equipment \$2,000 and above are capitalized at cost. Contributed items are recorded at fair market value at date of donation. Depreciation is computed on the straight-line basis over the assets' estimated useful lives as follows:

Buildings and Improvements	30 Years
Furnishings and Equipment	5 to 10 Years
Computer Equipment, Software, and Websites	3 Years

Deferred Sales Revenue

Sales of books are subject to significant returns. The returns less related return to inventory of the books has been estimated upon historical return rates. The net effect of the sales return estimate is classified as the liability, Deferred Sales Revenue. The deferred sales revenue liability was \$387,383 and \$538,480 as of December 31, 2019 and 2018, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue recognition treatment is determined on a case-by-case basis in accordance with generally accepted accounting principles. The major revenue streams of Graywolf and corresponding revenue recognition treatment is as follows:

Book Revenue – Graywolf has various sales and distribution agreements in place to deliver its product – books – to its customer. Farrar, Straus, & Giroux, LLC (FSG) is its primary distributor and fulfills the majority of Graywolf’s book sales and returns. Revenue is recognized at the point-of-sale which is processed, tracked and reported by FSG. The transaction price varies based on unit prices which are mutually agreed upon by Graywolf, FSG and the retailer. Each month Graywolf receives payment from FSG based on the sales generated three months prior, less FSG’s service charge and a reserve for possible future returns. The reserve is approximately 20% of sales and held back by FSG on a 12-month rolling basis.

Contributions – Contributions received are recorded as support without or with donor restrictions, depending on the existence of any donor restrictions. All donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as Net Assets Released from Restrictions. Unconditional pledges are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Donated services are recognized as contributions 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 Graywolf. Donated materials are valued at market value on the date of donation.

Government Grants and Contracts – Government grants and contract funds are recorded as revenue when earned. Revenue is earned when eligible expenditures, as defined in each grant or contract, are made. Expenditures under government contracts are subject to review by the granting authority. To the extent, if any, that such a review reduces expenditures allowable under these contracts, Graywolf will record such disallowance at the time the final assessment is made.

Fair Value Measurements

Graywolf has categorized its financial instruments based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value of the instrument.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Financial assets recorded on the statement of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that Graywolf has the ability to access (examples include active exchange-traded equity securities, listed derivatives, and most U.S. government and agency securities).

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. *Level 2* inputs include the following:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in nonactive markets;
- Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including interest rate and currency swaps); and
- Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability (examples include certain residential and commercial mortgage related assets, including loans, securities, and derivatives).

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain private equity investments).

Functional Allocation of Expense

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Graywolf. Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated based on the best estimates of management, including being allocated based on the estimates of time spent on each functional category of expenses.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax

Graywolf has a tax-exempt status under Section 501 (c)(3) of the Internal Revenue Code (IRC) and has adopted *Accounting for Uncertainty in Income Taxes*, ASC 740-10. Graywolf's policy is to evaluate uncertain tax positions, at least annually, for the potential for income tax exposure from unrelated business income or from loss of nonprofit status. Graywolf continues to operate consistent with its original exemption application and each year takes the necessary actions to maintain its exempt status. It has been classified as an organization that is not a private foundation under the IRC and charitable contributions by donors are tax deductible.

Advertising

Graywolf uses advertising, both print/online advertising and cooperative advertising at bookstores, to promote its books to readers. Advertising costs are expensed as incurred. Advertising expense of \$53,574 and \$89,032 was recorded for the years ended December 31, 2019 and 2018, respectively.

Shipping and Handling Costs

Shipping and handling costs are charged to operations as they are incurred. Shipping and handling expense was \$219,674 and \$167,329 for the years ended December 31, 2019 and 2018, respectively.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Change in Accounting Principle

ASU 2014-09 – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Subsequent to May 2014, the FASB issued six ASUs to clarify certain matters related to Topic 606. Topic 606 supersedes the revenue recognition requirements in FASB ASC 605, Revenue Recognition, and requires the recognition of revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The updates address the complexity of revenue recognition and provide sufficient information to enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Graywolf applied this ASU using the modified retrospective approach.

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NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Change in Accounting Principle (Continued)

ASU 2018-08 – In June 2018, FASB issued Accounting Standards (ASU) 2018-08, *Accounting Guidance for Contributions Received and Made*. This ASU was issued to clarify accounting guidance for contributions received and contributions made. The amendments to this ASU assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as an exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Graywolf applied this ASU using the modified prospective approach.

There was no impact to the total change in net assets as previously reported due to the implementation of these new standards.

Subsequent Events

Graywolf has evaluated the effect that subsequent events would have on the financial statements through April 29, 2020, which is the date financial statements were available to be issued.

NOTE 2 SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Graywolf markets their publications internationally. The amounts due for book sales and grants and contributions are from individuals or organizations located across the world. In addition, accounts, grants, and pledges receivable are from individuals and organizations.

Graywolf contracts with Farrar, Straus, & Giroux, LLC (FSG) as its primary distributor. FSG provides representation, sales, billing, shipping, customer service, collection, and processing of returns. Some of these services provided by FSG are based upon a percentage of sales, currently at 19% on new book sales and 4.5% on returns. In 2019, 99% of sales were made through FSG and accounts receivable of \$865,835 was due from FSG at December 31, 2019. In 2018, 98% of sales were made through FSG and accounts receivable of \$1,143,966 was due from FSG at December 31, 2018.

Total contributions receivable include pledges receivable and grants receivable which are due from donors and granting agencies, respectively, located throughout the country. As of December 31, 2019, contributions receivable from three individual donors accounted for approximately 54% of outstanding contributions. As of December 31, 2018, contribution receivable from two individual donors accounted for approximately 46% of outstanding contributions.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 3 PLEDGES RECEIVABLE

The balance of pledges receivable was due as follows as of:

<u>Year Ending December 31,</u>	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ 302,007
2020	378,609	274,615
2021	364,870	269,300
2022	250,524	239,823
2023	39,164	-
Total Pledges Receivable	<u>1,033,167</u>	<u>1,085,745</u>
Discounted to Net Present Value at 4%	<u>(37,770)</u>	<u>(57,500)</u>
Net Pledges Receivable	995,397	1,028,245
Current Portion	378,609	302,007
Long-Term Portion	<u>\$ 616,788</u>	<u>\$ 726,238</u>

Allowance for doubtful pledges was based on management's evaluation of outstanding pledges receivable at the end of the year. As of December 31, 2019 and 2018, no allowance was deemed necessary.

NOTE 4 PROPERTY AND EQUIPMENT

Graywolf owned the following assets as of December 31:

	<u>2019</u>	<u>2018</u>
Furniture and Equipment	\$ 88,170	\$ 85,752
Leasehold Improvements	85,995	85,995
Database and Website	148,147	148,147
Total	<u>322,312</u>	<u>319,894</u>
Less: Accumulated Depreciation	<u>(263,501)</u>	<u>(228,662)</u>
Total Equipment	<u>\$ 58,811</u>	<u>\$ 91,232</u>

Depreciation expense of \$34,840 and \$22,321 was recorded for the years ended December 31, 2019 and 2018, respectively.

NOTE 5 NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD-DESIGNATED

Net assets without donor restrictions – board-designated as of December 31, 2019 and 2018 were \$3,122,000 and \$2,472,000, respectively. The board has designated these net assets for future use by Graywolf, as approved by the board.

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 5 NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD-DESIGNATED

Book sales, as well as contributed revenue from major campaigns, are variable over time. Book sales are unpredictable and dependent on market conditions, while campaign revenue is pledged over a number of years and is spent down over time. Therefore, the board of directors sets aside excess operating revenue from both book sales and campaign receipts for future year operations through a board-designated fund at the end of each year. The Finance Committee recommends an amount to be transferred to the fund, and the full board votes on the transfer as part of the audited financial statement approval for the year.

Board-designated funds are released in a similar mechanism, by recommendation from the Finance Committee and approval of the full board. Board-designated funds do not have donor restrictions. Funds may be used to enable Graywolf Press to invest in singular writers, enlarge the commitment to inclusivity, engage readers, stimulate conversations as well as sustain and grow operations. They also may be used to offset noncash expenses, such as inventory, cost of sales, or advance royalty expenses, and they may be used for program and personnel expenses associated with achieving strategic plan goals.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods:

	<u>2019</u>	<u>2018</u>
Subject to the Passage of Time:		
New Chapter Campaign	\$ 984,672	\$ 1,024,039
Time Restricted Organizational Support	<u>77,499</u>	<u>133,529</u>
Subtotal	1,062,171	1,157,568
Subject to Expenditure for Specified Purpose:		
Support of Specified Titles	70,000	73,200
Endowment Earnings	<u>3,102</u>	<u>2,578</u>
Subtotal	73,102	75,778
Endowment	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ 1,235,273</u>	<u>\$ 1,333,346</u>

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 7 ENDOWMENT FUNDS

Description

The endowment fund consists an individual fund established by a donor. The fund shall be held in perpetuity with the income and related investment gains to be used for the Graywolf Press Nonfiction Prize.

Interpretation of Relevant Law

The board of directors has interpreted the Minnesota Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair 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, Graywolf classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Graywolf in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Graywolf 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 Graywolf 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 Graywolf
7. The investment policies of Graywolf

Endowment Net Asset Composition by Type of Fund

<u>December 31, 2019</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	3,102	3,102
	<u>\$ -</u>	<u>\$ 103,102</u>	<u>\$ 103,102</u>
<u>December 31, 2018</u>	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	2,578	2,578
	<u>\$ -</u>	<u>\$ 102,578</u>	<u>\$ 102,578</u>

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NOTES TO FINANCIAL STATEMENTS
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NOTE 7 ENDOWMENT FUNDS (CONTINUED)

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2017	\$ -	\$ 101,811	\$ 101,811
Investment Return	-	767	767
December 31, 2018	-	102,578	102,578
Investment Return	-	524	524
December 31, 2019	<u>\$ -</u>	<u>\$ 103,102</u>	<u>\$ 103,102</u>

NOTE 8 COST OF GOODS SOLD

The reconciliation of cost of goods sold was as follows:

	2019	2018
Beginning Inventory	\$ 438,146	\$ 462,339
Production Cost	940,485	911,540
Other Cost of Sales and Adjustments	(1,053)	(31,368)
Goods Available-for-Sale	<u>1,377,578</u>	<u>1,342,511</u>
Less: Ending Inventory	546,415	438,146
Cost of Goods Sold	<u>\$ 831,163</u>	<u>\$ 904,365</u>

NOTE 9 LEASED FACILITIES AND EQUIPMENT

Rental commitments under noncancelable leases for office space and equipment in effect at December 31, 2019, totaled \$51,082. The lease of the Minneapolis, Minnesota office is for a term of 60 months, expiring June 30, 2021. The future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	Amount
2020	\$ 33,671
2021	17,411
Total	<u>\$ 51,082</u>

Rental expense of \$69,652 and \$67,359 as recorded for the years ended December 31, 2019 and 2018, respectively.

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NOTE 10 RETIREMENT PLAN

Graywolf has a 403(b) tax deferred annuity plan. Employees are eligible for a pension contribution equal to 5% of their salary upon completion of one year of service for the years ended December 31, 2019 and 2018. Retirement expense of \$46,533 and \$46,060 was recorded for the years ended December 31, 2019 and 2018, respectively.

NOTE 11 COMMITMENTS

Graywolf, in the normal course of business, provides advances to authors for future publications. The amount due for future advances remaining on author contracts at December 31, 2019 is \$398,012.

NOTE 12 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors, national council, and employees totaled \$249,559 and \$582,279 during the years ended December 31, 2019 and 2018, respectively. Board member contributions receivable as of December 31, 2019 and 2018 were \$154,979 and \$374,456, respectively.

NOTE 13 LIQUIDITY AND AVAILABILITY

Graywolf monitors and reports the liquidity required to meet operating needs on a monthly basis. At December 31, 2019 and 2018 Graywolf has \$3,717,603 and \$3,381,046, respectively, of financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date. Of those assets, \$3,122,000 are board-designated for future periods as of December 31, 2019 and 2018.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Graywolf considers all expenditures related to its ongoing activities of acquiring, publishing, and marketing books as well as the operations needed to support those activities. In addition to financial assets available to meet general expenditures over the next 12 months, Graywolf operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donated revenue.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 13 LIQUIDITY AND AVAILABILITY (CONTINUED)

As of December 31, 2019, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Cash and Equivalents	\$ 2,645,853	\$ 2,094,934
Accounts Receivable (Net of Discount)	867,028	1,147,649
Grants Receivable Due in One Year or Less	133,207	192,813
Pledges Receivable Due in One Year or Less	378,609	302,007
Less: Reserves on Returns	(133,992)	(180,579)
Less: Restricted Assets		
Endowed Cash	(103,102)	(102,578)
Purpose Restricted Contributions Receivables	(70,000)	(73,200)
Total	<u>\$ 3,717,603</u>	<u>\$ 3,381,046</u>

NOTE 14 SUBSEQUENT EVENTS

The COVID-19 pandemic is having significant effects on global markets, supply chains, businesses, and communities. Specific to Graywolf COVID-19 may impact various parts of its 2020 operations and financial results, including book sales and contribution income. Management believes that Graywolf is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as these events occurred subsequent to year-end and are still developing.

Subsequent to year-end, Graywolf received a loan in the amount of \$287,200 to fund payroll, rent, utilities, and interest on mortgages and existing debt through the federal Paycheck Protection Program. These amounts may be forgiven subject to compliance and approval based on the timing and use of these funds in accordance with the program.