

GRAYWOLF PRESS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2021 AND 2020



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**GRAYWOLF PRESS
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YEARS ENDED DECEMBER 31, 2021 AND 2020**

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Graywolf Press
Minneapolis, Minnesota

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Graywolf Press, which comprise the balance sheets as of December 31, 2021 and 2020, and the related statements of activities, functional expense, and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Graywolf Press and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis-of-Matter Regarding Restatement

As discussed in Note 15 to the financial statements, certain errors resulting in overstatement of amounts previously reported for deferred sales revenue and cost of goods sold expenses as of December 31, 2020 were discovered during the current year audit. Accordingly, amounts reported for deferred sales revenue and cost of goods sold expenses have been restated in the 2020 financial statements now presented, and an adjustment has been made to net assets as of December 31, 2020, to correct the error. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Graywolf Press's ability to continue as a going concern for one year after the date the financial statements are available to be issued.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Graywolf Press's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Graywolf Press's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
March 29, 2022

**GRAYWOLF PRESS
BALANCE SHEETS
DECEMBER 31, 2021 AND 2020**

	2021	(Restated) 2020
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,939,464	\$ 3,553,437
Investments	2,054,723	-
Accounts Receivable, Net	708,410	886,035
Grants Receivable	135,279	139,452
Short-Term Pledges Receivable	263,711	385,970
Prepaid Expense	100,244	53,255
Royalty Advances	506,835	629,784
Inventory - Net	600,709	514,584
Total Current Assets	<u>6,309,375</u>	<u>6,162,517</u>
Long-Term Pledges Receivable, Net	46,975	298,411
Property and Equipment, Net	<u>115,130</u>	<u>49,772</u>
Total Assets	<u><u>\$ 6,471,480</u></u>	<u><u>\$ 6,510,700</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	\$ 117,226	\$ 83,614
Accrued Expense	23,837	24,292
Royalty Payable	393,080	477,499
Reserve for Sales Returns	259,626	296,180
Total Current Liabilities	<u>793,769</u>	<u>881,585</u>
NET ASSETS		
Without Donor Restrictions:		
Undesignated	969,731	960,140
Board-Designated	<u>4,037,000</u>	<u>3,762,000</u>
Total Without Donor Restrictions:	5,006,731	4,722,140
With Donor Restrictions	<u>670,980</u>	<u>906,975</u>
Total Net Assets	<u>5,677,711</u>	<u>5,629,115</u>
Total Liabilities and Net Assets	<u><u>\$ 6,471,480</u></u>	<u><u>\$ 6,510,700</u></u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021				
	Operations	Board Designated	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE					
Contributions	\$ 813,562	\$ -	\$ 813,562	\$ 259,392	\$ 1,072,954
Grants from Governmental Agencies	-	-	-	243,764	243,764
Book Revenue - Net of Returns	3,612,157	-	3,612,157	-	3,612,157
Rights Revenue	299,846	-	299,846	-	299,846
Investment Income	62,447	-	62,447	-	62,447
Net Assets Released from Restrictions:					
Satisfaction of Program Restrictions	171,092	-	171,092	(171,092)	-
Satisfaction of Time Restrictions	568,059	-	568,059	(568,059)	-
Total Support and Revenue	5,527,163	-	5,527,163	(235,995)	5,291,168
EXPENSE					
Program Services:					
Editorial Services	769,746	-	769,746	-	769,746
Cost of Sales	2,814,842	-	2,814,842	-	2,814,842
Promotion and Marketing Services	996,989	-	996,989	-	996,989
Total Program Services	4,581,577	-	4,581,577	-	4,581,577
Support Services:					
Management and General	320,165	-	320,165	-	320,165
Development	340,830	-	340,830	-	340,830
Total Support Services	660,995	-	660,995	-	660,995
Total Expense	5,242,572	-	5,242,572	-	5,242,572
CHANGE IN NET ASSETS BEFORE TRANSFERS	284,591	-	284,591	(235,995)	48,596
TRANSFER OF DESIGNATED FUNDS	(275,000)	275,000	-	-	-
CHANGE IN NET ASSETS AFTER TRANSFERS	9,591	275,000	284,591	(235,995)	48,596
Net Assets - Beginning of Year	960,140	3,762,000	4,722,140	906,975	5,629,115
NET ASSETS - END OF YEAR	<u>\$ 969,731</u>	<u>\$ 4,037,000</u>	<u>\$ 5,006,731</u>	<u>\$ 670,980</u>	<u>\$ 5,677,711</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF ACTIVITIES (CONTINUED)
YEARS ENDED DECEMBER 31, 2021 AND 2020

		2020 (Restated)		
Operations	Board Designated	Without Donor Restrictions	With Donor Restrictions	Total
\$ 655,291	\$ -	\$ 655,291	\$ 194,257	\$ 849,548
287,200	-	287,200	182,353	469,553
4,319,984	-	4,319,984	-	4,319,984
219,107	-	219,107	-	219,107
20,548	-	20,548	1,041	21,589
172,988	-	172,988	(172,988)	-
532,961	-	532,961	(532,961)	-
6,208,079	-	6,208,079	(328,298)	5,879,781
733,021	-	733,021	-	733,021
3,147,588	-	3,147,588	-	3,147,588
907,995	-	907,995	-	907,995
4,788,604	-	4,788,604	-	4,788,604
283,931	-	283,931	-	283,931
343,014	-	343,014	-	343,014
626,945	-	626,945	-	626,945
5,415,549	-	5,415,549	-	5,415,549
792,530	-	792,530	(328,298)	464,232
(640,000)	640,000	-	-	-
152,530	640,000	792,530	(328,298)	464,232
807,610	3,122,000	3,929,610	1,235,273	5,164,883
<u>\$ 960,140</u>	<u>\$ 3,762,000</u>	<u>\$ 4,722,140</u>	<u>\$ 906,975</u>	<u>\$ 5,629,115</u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2021

	Program Services				Support Services			Total All Services
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development	Total Support Services	
Salaries	\$ 504,744	\$ -	\$ 479,507	\$ 984,251	\$ 126,186	\$ 151,423	\$ 277,609	\$ 1,261,860
Employee Benefits	103,092	-	97,938	201,030	25,773	30,928	56,701	257,731
Payroll Taxes	36,774	-	34,935	71,709	9,193	11,032	20,225	91,934
Total Personnel Costs	644,610	-	612,380	1,256,990	161,152	193,383	354,535	1,611,525
Cost of Goods Sold	-	1,027,870	-	1,027,870	-	-	-	1,027,870
Royalty Expense	-	1,003,411	-	1,003,411	-	-	-	1,003,411
Distribution Fees	-	783,561	-	783,561	-	-	-	783,561
Grants to Others	3,425	-	3,425	6,850	-	-	-	6,850
Contract and Professional Fees	13,088	-	105,882	118,970	83,276	75,047	158,323	277,293
Occupancy	28,725	-	27,288	56,013	7,181	8,617	15,798	71,811
Office Expenses	18,611	-	15,951	34,562	15,481	10,025	25,506	60,068
Information Technology	25,543	-	31,098	56,641	2,805	11,542	14,347	70,988
Insurance	-	-	-	-	42,060	-	42,060	42,060
Travel	1,190	-	-	1,190	-	-	-	1,190
Conferences and Meetings	6,857	-	17,589	24,446	1,943	4,960	6,903	31,349
Complimentary Copies	598	-	12,253	12,851	-	5,986	5,986	18,837
Galleys	-	-	23,970	23,970	-	4,332	4,332	28,302
Postage and Shipping	16,390	-	27,275	43,665	1,589	13,968	15,557	59,222
Promotion Expense	153	-	22,933	23,086	894	9,803	10,697	33,783
Author Tours	-	-	2,673	2,673	-	-	-	2,673
Advertising	-	-	84,243	84,243	-	-	-	84,243
Depreciation	10,556	-	10,029	20,585	3,784	3,167	6,951	27,536
Total Expense	\$ 769,746	\$ 2,814,842	\$ 996,989	\$ 4,581,577	\$ 320,165	\$ 340,830	\$ 660,995	\$ 5,242,572

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2020 (RESTATED)

	Program Services			Support Services			Total All Services	
	Editorial	Cost of Sales	Promotion and Marketing Services	Total Program Services	Management and General	Development		Total Support Services
Salaries	\$ 474,932	\$ -	\$ 415,566	\$ 890,498	\$ 142,480	\$ 154,353	\$ 296,833	\$ 1,187,331
Employee Benefits	91,670	-	80,212	171,882	27,501	29,793	57,294	229,176
Payroll Taxes	34,367	-	30,071	64,438	10,310	11,169	21,479	85,911
Total Personnel Costs	600,969	-	525,849	1,126,818	180,291	195,315	375,606	1,502,424
Cost of Goods Sold	-	1,000,059	-	1,000,059	-	-	-	1,000,059
Royalty Expense	-	1,254,534	-	1,254,534	-	-	-	1,254,534
Distribution Fees	-	892,995	-	892,995	-	-	-	892,995
Grants to Others	13,875	-	13,875	27,750	-	-	-	27,750
Contract and Professional Fees	3,595	-	73,234	76,829	30,973	82,815	113,788	190,617
Occupancy	27,529	-	24,088	51,617	8,259	8,947	17,206	68,823
Office Expenses	19,224	-	14,468	33,692	16,998	10,607	27,605	61,297
Information Technology	24,262	-	27,827	52,089	3,400	12,917	16,317	68,406
Insurance	-	-	-	-	34,506	-	34,506	34,506
Travel	7,957	-	12,078	20,035	-	1,416	1,416	21,451
Conferences and Meetings	4,077	-	30,271	34,348	2,474	2,988	5,462	39,810
Complimentary Copies	1,017	-	12,168	13,185	-	816	816	14,001
Galleys	-	-	18,397	18,397	-	1,824	1,824	20,221
Postage and Shipping	13,162	-	28,078	41,240	2,502	9,560	12,062	53,302
Promotion Expense	19	-	24,723	24,742	-	10,904	10,904	35,646
Author Tours	2,243	-	18,903	21,146	-	-	-	21,146
Advertising	-	-	70,830	70,830	-	-	-	70,830
Depreciation	15,092	-	13,206	28,298	4,528	4,905	9,433	37,731
Total Expense	\$ 733,021	\$ 3,147,588	\$ 907,995	\$ 4,788,604	\$ 283,931	\$ 343,014	\$ 626,945	\$ 5,415,549

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2021 AND 2020

	2021	(Restated) 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 48,596	\$ 464,232
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	27,536	37,731
Increase (Decrease) in A/R Allowance	(3,737)	6,856
Unrealized Gain on Investments	(28,769)	-
Realized Gain on Investments	(6,243)	-
Change in Royalty Advances Reserve	(84,419)	50,269
Change in Sales Return Reserve	(36,554)	(91,203)
Change in Reserve for Obsolete Inventory	(629,935)	(629,935)
PPP Loan Forgiveness	-	(287,200)
(Increase) Decrease in Current Assets:		
Accounts Receivable	177,625	(19,007)
Pledges Receivable	377,432	304,160
Grants Receivable	4,173	(6,245)
Royalty Advances	122,949	133,002
Inventory	543,810	661,766
Prepaid Expense	(46,989)	(1,217)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	33,612	6,103
Accrued Salaries Payable	(455)	19,764
Net Cash Provided by Operating Activities	<u>498,632</u>	<u>649,076</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(3,765,359)	-
Proceeds from Sale of Investments	1,745,648	-
Purchase of Equipment	(92,894)	(28,692)
Net Cash Used by Investing Activities	<u>(2,112,605)</u>	<u>(28,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt	<u>-</u>	<u>287,200</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(1,613,973)</u>	<u>907,584</u>
Cash and Cash Equivalents - Beginning of Year	<u>3,553,437</u>	<u>2,645,853</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 1,939,464</u></u>	<u><u>\$ 3,553,437</u></u>

See accompanying Notes to Financial Statements.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 around thirty books each year, divided equally across poetry, fiction, and nonfiction. We are known for supporting both emerging and established writers whose work fosters new thinking about what it means to live in the world today.

Graywolf published 33 books in 2021 and acquired 23 new manuscripts by authors from around the world. We reached 675,000 readers with outstanding contemporary literature, achieving over \$3.5 million in book sales. Postcolonial Love Poem by Natalie Diaz won the Pulitzer Prize for Poetry, and Telephone by Percival Everett was a finalist for the Pulitzer Prize for Fiction. The Twilight Zone by Nona Fernández was a finalist for the National Book Award for Translated Literature. Our authors participated in over 200 virtual and in-person events in 2021.

In October 2021, Graywolf completed its \$3 million New Chapter Campaign, a creative investment campaign begun in 2017 to raise funds for future publishing operations and strategic investments. The funds will be invested in the organization over the next five years.

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.

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.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2021 and 2020, Graywolf held funds at a local financial institution in excess of federally insured limits.

Investments

Investments are recorded at fair value except for certificates of deposit which are recorded at cost. Investment income, including gains and losses on investments, is recorded as increases or decreases in net assets without donor restrictions unless its use is limited by donor-imposed restrictions or law.

Graywolf's investments are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that those changes in the values of investments will occur in the near term and that such changes could be material to the amounts reported in the statements of financial position.

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, 2021 and 2020, 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 \$757,193 and \$585,830 at December 31, 2021 and 2020, 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 \$506,835 and \$629,784 at December 31, 2021 and 2020, 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

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reserve for Sales Returns

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 as follows:

	2021	2020
Projected Sales Returns	\$ 380,495	\$ 426,581
Less: Return of Books to Inventory	(120,869)	(130,401)
Reserve for Sales Returns	\$ 259,626	\$ 296,180

Revenue Recognition

Revenue recognition treatment is determined on a case-by-case basis in accordance with accounting principles generally accepted in the United States of America. 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.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

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. 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).

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 \$84,243 and \$70,830 was recorded for the years ended December 31, 2021 and 2020, respectively.

Shipping and Handling Costs

Shipping and handling costs are charged to operations as they are incurred. Shipping and handling expense was \$164,905 and \$169,220 for the years ended December 31, 2021 and 2020, 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.

Subsequent Events

Graywolf has evaluated the effect that subsequent events would have on the financial statements through March 29, 2022, which is the date financial statements were available to be issued. After 27 years as the Director and Publisher of Graywolf Press, Fiona McCrae announced her retirement in late 2021 with a plan to remain on staff through June 2022. The Graywolf board has embarked on a national search for a replacement and has hired a search firm to lead the search process.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

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 2021, 99% of sales were made through FSG and accounts receivable of \$704,918 was due from FSG at December 31, 2021. In 2020, 99% of sales were made through FSG and accounts receivable of \$884,479 was due from FSG at December 31, 2020.

Total contributions receivable includes pledges receivable and grants receivable which are due from donors and granting agencies, respectively, located throughout the country. As of December 31, 2021, contributions receivable from three individual donors accounted for approximately 53% of outstanding contributions. As of December 31, 2020, contribution receivable from two individual donors accounted for approximately 41% of outstanding contributions.

NOTE 3 PLEDGES RECEIVABLE

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

<u>Year Ending December 31,</u>	<u>2021</u>	<u>2020</u>
2021	\$ -	385,970
2022	263,711	276,249
2023	40,875	22,562
2024	10,000	10,000
Total Pledges Receivable	314,586	694,781
Allowance for Doubtful Pledges Receivable	(3,118)	(6,856)
Discounted to Net Present Value at 4%	(782)	(3,544)
Net Pledges Receivable	310,686	684,381
Current Portion	263,711	385,970
Long-Term Portion	\$ 46,975	\$ 298,411

Allowance for doubtful pledges was based on management's evaluation of outstanding pledges receivable at the end of the year. As of December 31, 2021 and 2020, the allowance for doubtful pledges was \$3,118 and \$6,856, respectively.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 FAIR VALUE MEASUREMENTS

The following table presents the fair value hierarchy of assets that are measured at fair value on a recurring basis at December 31:

		2021		
		Level 1	Level 2	Level 3
		Total		
Assets				
Investments:				
Mutual Funds	\$ 103,356	\$ -	\$ -	\$ 103,356
Equity Securities	695,414	-	-	695,414
Fixed Income	1,146,788	-	-	1,146,788
Total Assets	<u>\$ 1,945,558</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,945,558</u>
		2020		
		Level 1	Level 2	Level 3
		Total		
Assets				
Investments:				
Mutual Funds	\$ -	\$ -	\$ -	\$ -
Equity Securities	-	-	-	-
Fixed Income	-	-	-	-
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The totals do not include certain amounts as they are not measured on a recurring basis at fair value. The table below reconciles total investments:

	2021	2020
Total Investments	\$ 2,054,723	\$ -
Investments Not Measured at Fair Value on a Recurring Basis:		
Cash and Cash Equivalents	(109,165)	-
Total Investments Measured at Fair Value on a Recurring Basis	<u>\$ 1,945,558</u>	<u>\$ -</u>

NOTE 5 PROPERTY AND EQUIPMENT

Graywolf owned the following assets as of December 31:

	2021	2020
Furniture and Equipment	\$ 122,679	\$ 116,861
Leasehold Improvements	85,995	85,995
Work in Progress	87,076	-
Database and Website	148,147	148,147
Total	443,897	351,003
Less: Accumulated Depreciation	(328,767)	(301,231)
Total Equipment	<u>\$ 115,130</u>	<u>\$ 49,772</u>

Depreciation expense of \$27,536 and \$37,731 was recorded for the years ended December 31, 2021 and 2020, respectively.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 6 NET ASSETS WITHOUT DONOR RESTRICTIONS – BOARD-DESIGNATED

Net assets without donor restrictions – board-designated of \$4,037,000 and \$3,762,000 was recorded as of December 31, 2021 and 2020, respectively. The board has designated these net assets for future use by Graywolf, as approved by the board.

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 7 NET ASSETS WITH DONOR RESTRICTIONS

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

	2021	2020
Subject to the Passage of Time:		
New Chapter Campaign	\$ 307,936	\$ 671,381
Time Restricted Organizational Support	203,279	61,451
Subtotal	511,215	732,832
Subject to Expenditure for Specified Purpose:		
Support of Specified Titles	55,000	70,000
Endowment Earnings	4,765	4,143
Subtotal	59,765	74,143
Endowment	100,000	100,000
Total	<u>\$ 670,980</u>	<u>\$ 906,975</u>

NOTE 8 ENDOWMENT FUNDS

Description

The endowment fund consists of 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.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

NOTE 8 ENDOWMENT FUNDS (CONTINUED)

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, 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

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	4,765	4,765
Total	<u>\$ -</u>	<u>\$ 104,765</u>	<u>\$ 104,765</u>

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Original donor restricted gift amount to be maintained in perpetuity by donor	\$ -	\$ 100,000	\$ 100,000
Accumulated investment gains	-	4,143	4,143
Total	<u>\$ -</u>	<u>\$ 104,143</u>	<u>\$ 104,143</u>

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 ENDOWMENT FUNDS (CONTINUED)

Changes in Endowment Net Assets

	Without Donor Restrictions	With Donor Restrictions	Total
December 31, 2019	\$ -	\$ 103,102	\$ 103,102
Investment Return	-	1,041	1,041
December 31, 2020	-	104,143	104,143
Investment Return	-	622	622
December 31, 2021	<u>\$ -</u>	<u>\$ 104,765</u>	<u>\$ 104,765</u>

NOTE 9 COST OF GOODS SOLD

The reconciliation of cost of goods sold was as follows:

	2021	(Restated) 2020
Beginning Inventory	\$ 514,584	\$ 546,415
Production Cost	1,068,899	942,362
Other Cost of Sales and Adjustments	45,096	25,866
Goods Available-for-Sale	1,628,579	1,514,643
Less: Ending Inventory	600,709	514,584
Cost of Goods Sold	<u>\$ 1,027,870</u>	<u>\$ 1,000,059</u>

NOTE 10 LEASED FACILITIES AND EQUIPMENT

Rental commitments under noncancelable leases for office space and equipment in effect at December 31, 2021, totaled \$911,313. The lease of the Minneapolis, Minnesota office was for a term of 60 months and expired June 30, 2021. Graywolf continues to pay month to month; however, they signed a new lease for office space with a term of 130 months during 2021. The future minimum lease payments are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2022	\$ 78,564
2023	78,834
2024	78,515
2025	79,420
2026	81,405
Thereafter	514,575
Total	<u>\$ 911,313</u>

Rental expense of \$64,904 and \$70,301 as recorded for the years ended December 31, 2021 and 2020, respectively.

**GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
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NOTE 11 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, 2021 and 2020. Retirement expense of \$56,883 and \$52,315 was recorded for the years ended December 31, 2021 and 2020, respectively.

NOTE 12 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, 2021 is \$220,341.

NOTE 13 RELATED PARTY TRANSACTIONS

Contribution revenues from members of the board of directors and employees totaled \$132,119 and \$89,114 during the years ended December 31, 2021 and 2020, respectively. Board member contributions receivable as of December 31, 2021 and 2020 were \$184,278 and \$138,692, respectively.

NOTE 14 LIQUIDITY AND AVAILABILITY

Graywolf monitors and reports the liquidity required to meet operating needs on a monthly basis. At December 31, 2021 and 2020, Graywolf has \$4,757,447 and \$4,650,371, 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, \$4,037,000 and \$3,762,000 are board-designated for future periods as of December 31, 2021 and 2020, respectively.

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.

GRAYWOLF PRESS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020

NOTE 14 LIQUIDITY AND AVAILABILITY (CONTINUED)

As of December 31, 2021, the following financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

	2021	2020
Cash and Equivalents	\$ 1,939,464	\$ 3,553,437
Investments	2,054,723	-
Accounts Receivable (Net of Discount)	708,410	886,035
Grants Receivable Due in One Year or Less	135,279	139,452
Pledges Receivable Due in One Year or Less	263,711	385,970
Less: Reserves on Returns	(124,375)	(140,380)
Less Restricted Assets:		
Endowed Cash	(104,765)	(104,143)
Time Restricted Cash	(60,000)	-
Purpose Restricted Contributions Receivables	(55,000)	(70,000)
Total	<u>\$ 4,757,447</u>	<u>\$ 4,650,371</u>

NOTE 15 RESTATEMENT

The December 31, 2020 financial statements were restated to properly implement the revenue recognition accounting standard (Topic 606). This restatement reduced the reserve for sales return liability and expenses by \$130,401. The total change in net assets for the year ended December 31, 2020 increased by \$130,491.