Beacon Press

Financial Statements for the Years Ended June 30, 2004 and 2003 and Independent Auditors' Report

BEACON PRESS

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
  Unitarian Universalist Association
Boston, Massachusetts

We have audited the accompanying statements of financial position of Beacon Press (a department of Unitarian Universalist Association) as of June 30, 2004 and 2003 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Beacon Press management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Beacon Press as of June 30, 2004 and 2003 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8, the accompanying financial statements include significant transactions with a related party and may not necessarily be indicative of the financial position and changes in net assets that would have been obtained if Beacon Press had been operated as an unaffiliated organization. In addition, certain administrative services are provided to Beacon Press by a related party at no cost and are not reflected in the accompanying financial statements.

TBD, 2004

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

ASSETS	**2004**	**2003**
CURRENT ASSETS:		
Cash	$ 1,193,065	$ 993,784
Accounts receivable—net	824,717	798,571
Inventories	681,345	799,311
Prepaid expenses and other assets	11,657	23,209
Total current assets	2,710,784	2,614,875
ASSETS WHOSE USE IS RESTRICTED:		
Temporarily restricted investments	31,703	24,475
Temporarily restricted cash	2,502	356
Permanently restricted investments	41,139	41,139
Total investments whose use is restricted	75,344	65,970
FURNITURE, FIXTURES AND EQUIPMENT—Net	10,431	12,063
ROYALTY ADVANCES	253,193	265,476
TOTAL ASSETS	$ 3,049,752	$ 2,958,384
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 114,971	$ 98,775
Accrued expenses	130,120	120,468
Royalties payable	537,233	470,617
Reserve for returns	399,205	461,808
Amounts due to Unitarian Universalist Association	145,604	284,352
Total current liabilities	1,327,133	1,436,020
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION	28,753	28,485
Total liabilities	1,355,886	1,464,505
NET ASSETS:		
Unrestricted	1,618,522	1,427,909
Temporarily restricted	34,205	24,831
Permanently restricted	41,139	41,139
Total net assets	1,693,866	1,493,879
TOTAL LIABILITIES AND NET ASSETS	$ 3,049,752	$ 2,958,384

Total cost of goods sold	2,032,823	-	-	2,032,823
GROSS MARGIN	2,726,069			2,726,069
SUBRIGHTS INCOME	190,728			190,728
NET ASSETS RELEASED FROM RESTRICTIONS	96,854	(96,854)		-
Gross margin and other support	3,013,651	(96,854)	-	2,916,797
OPERATING EXPENSES:				
Editorial	336,013			336,013
Production	337,493			337,493
Marketing	715,082			715,082
Distributor sales commissions	299,627			299,627
Business	228,794			228,794
House fulfillment	78,488			78,488
Distributor fulfillment	489,790			489,790
Administration	323,582			323,582
Grant expenses	21,854			21,854
Total operating expenses	2,830,723			2,830,723
OPERATING INCOME (LOSS)	182,928	(96,854)		86,074
OTHER INCOME:				
Investment income	7,739			7,739
Unrealized gain on investments		7,228		7,228
Miscellaneous	(54)			(54)
Gifts and bequests		99,000		99,000
Total other income	7,685	106,228	-	113,913
INCREASE IN NET ASSETS	190,613	9,374	-	199,987
NET ASSETS:				
Beginning of year	1,427,909	24,831	41,139	1,493,879
End of year	$ 1,618,522	$ 34,205	$41,139	$1,693,866

See notes to financial statements.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET SALES	$ 4,761,773	$ -	$ -	$4,761,773
COST OF GOODS SOLD:				
Manufacturing	1,072,065			1,072,065
Manufacturing write-offs	327,753			327,753
Royalties	610,681			610,681
Royalty write-offs	152,894			152,894
Total cost of goods sold	2,163,393	-	-	2,163,393
GROSS MARGIN	2,598,380			2,598,380
SUBRIGHTS INCOME	154,439			154,439
NET ASSETS RELEASED FROM RESTRICTIONS	131,494	(131,494)		-
Gross margin and other support	2,884,313	(131,494)	-	2,752,819
OPERATING EXPENSES:				
Editorial	301,282			301,282
Production	310,480			310,480
Marketing	725,565			725,565
Distributor sales commissions	313,776			313,776
Business	226,349			226,349
House fulfillment	72,939			72,939
Distributor fulfillment	462,861			462,861
Administration	303,472			303,472
Grant expenses	56,496			56,496
Total operating expenses	2,773,220	-	-	2,773,220
OPERATING INCOME (LOSS)	111,093	(131,494)	-	(20,401)
OTHER (LOSS) INCOME:				
Investment income	15,940			15,940
Unrealized loss on investments	(28,581)	(2,049)		(30,630)
Miscellaneous	6,084			6,084
Gifts and bequests		85,276		85,276
Total other (loss) income	(6,557)	83,227	-	76,670
INCREASE (DECREASE) IN NET ASSETS	104,536	(48,267)	-	56,269
NET ASSETS:				
Beginning of year	1,323,373	73,098	41,139	1,437,610
End of year	$ 1,427,909	$ 24,831	$41,139	$1,493,879

BEACON PRESS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 199,987	$ 56,269
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,560	9,621
Inventory write-offs	233,389	327,754
Royalty advances write-offs	174,416	152,894
Unrealized (gain) loss on investments	(7,229)	30,630
Changes in:		
Accounts receivable	(26,146)	211,030
Inventories	(115,424)	(189,693)
Prepaid expenses and other assets	11,553	12,715
Royalty advances	(162,132)	(5,240)
Accounts payable and accrued expenses	25,847	(39,346)
Royalties payable	66,616	(17,143)
Reserve for returns	(62,603)	(71,515)
Accumulated postretirement benefit obligation	268	(2,606)
Total adjustments	149,115	419,101
Net cash provided by operating activities	349,102	475,370
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of furniture, fixtures and equipment	(8,927)	(13,988)
(Increase) decrease in assets whose use is restricted	(2,146)	143,858
Net cash (used in) provided by investing activities	(11,073)	129,871
CASH FLOWS FROM FINANCING ACTIVITIES—Net increase (decrease) in amounts due to Unitarian Universalist Association	(138,748)	63,995
NET INCREASE IN CASH	199,281	669,236
CASH:		
Beginning of year	993,784	324,548
End of year	$ 1,193,065	$ 993,784

See notes to financial statements.

1. DESCRIPTION OF BUSINESS

Beacon Press operates as a department of Unitarian Universalist Association (the "UUA"). As a part of UUA, Beacon Press is exempt from federal income tax on related income under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Beacon Press published 62 books during the current fiscal year, most of a scholarly and religious nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments—The carrying value of cash, accounts receivable and accounts payable approximates fair value due to the short-term nature of these instruments. The fair value of investments is based on quoted market prices (see Note 4).

Investments—Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value. Investment income and realized and unrealized losses on investments are recorded as other income of unrestricted net assets, unless the income and gains and losses are restricted by donor or law.

Temporarily and Permanently Restricted Net Assets—Temporarily restricted net assets are those whose use by Beacon Press has been limited by donors for a specific period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Beacon Press in perpetuity. Realized and unrealized gains of permanently restricted net assets are retained in a restricted net assets classification until appropriated by the UUA Board of Trustees (the "Board") and expended. State law allows the Board to appropriate so much of net appreciation of permanently restricted net assets as is prudent, considering Beacon Press's long- and short-term needs, present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. Through June 30, 2004, the Board has not appropriated any net appreciation of permanently restricted net assets. The appreciation of permanently restricted net assets recorded within temporarily restricted net assets totaled $31,449 and $24,486 at June 30, 2004 and 2003, respectively. Recorded within temporarily restricted net assets at June 30, 2004 and 2003 is $2,756 and $345, respectively, to be used to support publishing programs.

Donor-Restricted Gifts—Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. Conditional promises to give and indications of intentions to give are reported at fair value at the date of the gift, if received, or when the conditional promise becomes unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the year of receipt are reported as temporarily restricted contributions and net assets in the accompanying financial statements.

Sales Recognition—Sales are recorded upon shipment of books. Returns are accepted for as long as the book remains in print and are estimated at the time of sale by recording a return reserve.

Subrights Income—Income earned under subrights agreements is recognized when performance under the subrights contract has been completed and cash has been received.

Accounts Receivable—Accounts receivable, net, at June 30 consist of:

	2004	2003
Distributor	$ 753,555	$ 669,353
House sales	72,285	136,732
Other	690	690
Less allowance for doubtful accounts	(1,813)	(8,204)
	$ 824,717	$ 798,571

UUA uses a distributor to warehouse, sell, invoice and fulfill the publications of Beacon Press. The distributor also assumes full responsibility for collecting amounts due as a result of these sales. Hence, no allowance is required for doubtful accounts on these receivables.

Inventories—Finished goods inventory is valued using the weighted-average method. Inventories include work-in-process and comprise production costs (copy editing, translation fees, proofreading, composition and plates) as well as paper, printing and binding costs.

Advertising—Beacon Press expenses the production costs of advertising when the advertising takes place, except for sales catalogues, which are capitalized and amortized over their expected period of future benefits. Sales catalogues consist of two publications sent directly to customers, which detail Beacon Press's most recent publications as well as those published in the past. The capitalized costs of the catalogues are amortized over a 12-month period when a new catalogue is produced and distributed. Approximately $7,000 and $18,000 of catalogues were reported as assets at June 30, 2004 and 2003, respectively. Advertising expense was approximately $77,000 and $61,000 in fiscal years 2004 and 2003.

Furniture, Fixtures and Equipment—Additions are recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful life of the asset, generally three years. Repairs and maintenance costs are expensed as incurred.

Impairment of Long-Lived Assets—Long-lived assets to be held and used are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value, less cost to sell.

Royalty Advances—Royalty advances are negotiated on a contract-by-contract basis and are recorded when paid. Royalties are earned and recorded when the sale occurs and are applied as a reduction to royalty advances. Write-offs to advances are recorded when it appears that advances are not expected to be recovered from future sales.

Postretirement Benefits Other Than Pensions—Beacon Press records postretirement health benefits in accordance with Statement of Financial Accounting Standards ("SFAS") No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." SFAS No. 106 requires accrual of postretirement benefits (such as health care benefits) during the years an employee provides services (see Note 8).

Income Taxes—UUA, which Beacon Press is a department of, operates as a tax-exempt organization pursuant to Section 501(c)(3) of the Code and, accordingly, is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

3. INVESTMENTS

Investments consist of units in the UUA General Investment Fund (the "Fund"). Investments of the Fund consist primarily of government securities, mutual funds, corporate debt securities and common stocks. Investments are recorded at fair value in the statements of financial position at June 30 as follows:

	2004	2003
Assetts whose use is restricted:		
Temporarily restricted	$ 31,703	$ 24,475
Permanently restricted	41,139	41,139
	$ 72,842	$ 65,614

4. INVENTORIES

Inventories at June 30 consist of the following:

	2004	2003
Finished goods	$ 609,866	$ 746,730
Work in process	66,549	46,945
Paper stock	4,930	5,656
	$ 681,345	$ 799,331

5. FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment at June 30 consist of the following:

	2004	2003
Computer equipment	$ 165,898	$ 156,971
Furniture and fixtures	1,829	1,829
	167,727	158,800
Less accumulated depreciation	(157,296)	(146,737)
	$ 10,431	$ 12,063

6. NET SALES

Net sales consist of the following for the years ended June 30:

	2004	2003
Distributor gross sales—cloth	$ 1,957,240	$ 1,931,641
Less returns	(623,364)	(904,145)
	1,333,876	1,027,496
Distributor gross sales—paperback	3,666,258	4,309,627
Less returns	(812,638)	(1,226,262)
	2,853,620	3,083,365
House sales—net	571,396	650,912
Total net sales	$ 4,758,892	$ 4,761,773

7. BENEFIT PLANS

Retirement Plan—Beacon Press participates in a multiemployer defined contribution retirement plan administered by UUA covering all employees who have satisfied initial age and hourly requirements. It is Beacon Press's policy to fund pension costs accrued. Participants' interests are fully vested immediately. The expense associated with this plan was $77,155 and $76,950 for the years ended June 30, 2004 and 2003, respectively.

Postretirement Health Benefits Plan—The following table details the components of the funded status of the plan and amounts recognized in the accompanying financial statements as of June 30:

	2004	2003
Projected benefit obligation at June 30	$ 19,152	$ 38,218
Fair value of plan assets at June 30		
Projected benefit obligation in excess of fair value of plan	$ (19,152)	$ (38,218)
Accrued benefit cost recognized in the statements of financial position	$ (28,753)	$ (28,485)
Net periodic benefit cost	$ 3,105	$ 3,105
Employer contribution	$ 2,837	$ 4,621
Plan participants' contributions	$ -	$ -

The assumed health care cost trend rate used in determining the accumulated postretirement benefit obligations as of June 30, 2004 and 2003 was 10%. The discount rate used in determining the projected benefit obligation was 6% in 2004 and 2003, respectively.

8. RELATED-PARTY TRANSACTIONS

As discussed below, the accompanying financial statements include significant transactions with a related party and may not necessarily be indicative of the financial position and results of operations that would have been obtained if Beacon Press had been operated as an unaffiliated organization. In addition, certain administrative services are provided to Beacon Press by a related party at no cost.

Administrative Support—Certain expenditures are incurred by UUA on behalf of Beacon Press. In both 2004 and 2003, UUA provided administrative, payroll and benefits, and management information services. No amounts were charged for these services and these services are not reflected in the accompanying financial statements. In addition, certain property and equipment used by Beacon Press are reflected in the accounts of UUA.

Beacon Press had intercompany sales to the UUA bookstore of approximately $131,000 and $154,000 in 2004 and 2003, respectively. Amounts due from UUA for bookstore purchases totaled $6,579 and $11,439 and are included in accounts receivable at June 30, 2004 and 2003, respectively.

At June 30, 2004 and 2003, Beacon Press owed $145,604 and $284,352, respectively, to UUA for various intercompany transactions.

Beacon Press participates in a multiemployer defined contribution retirement plan administered by UUA.

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