Annual Report to the
UNC Press Board of Governors
25 September 2013

While Fiscal 2013 had its share of challenges (changes in Press leadership, external economic pressures, and the shift to digital formats) I am pleased to announce that the Press held its own. We narrowly missed our sales and income projections but given the reports we've heard from other university presses, we are well positioned. Sales measured at the units' level increased, but the income-per-title is declining, generating a modest (and multi-year) decline in top-line revenue. The Press has responded to this through a continued search for efficiencies as well as a new round belt tightening (for example, there was no across-the board pay increase for staff this year and we have not filled 3 open full time positions)

This meeting will have thorough reporting coming from marketing, finance and development so I am limiting my report to an outline of some strategic initiatives which reside outside of our conventional publishing and operations goals. I will spend a little bit of time at the meeting providing some details about each of the following priorities.

1. We will execute a plan to improve the efficiency with which we publish our high-end scholarly monographs.
2. We will explore new service models, including running a series pilots on projects like: direct-to-consumer sales; Open-Access publishing; short form monographs; digital humanities projects; MOOC tie-in materials
3. We have begun exploring opportunities to collaborate with other presses and partners to scale operations activities for the Press
4. We will be executing the investments associated with the grants from the Mellon Foundation and the Kenan Trust.

These will be ambitious undertakings and we will be faced with the innovator's dilemma as we try to publish 90 new books while simultaneously reimagining some of the core principles of university press publishing. But I have a high level of confidence in the ability of the team at the Press to wrestle with these new challenges while concurrently continuing to optimize our proud publishing program.

John Sherer
Spangler Family Director
–23 September 2013

The University of North Carolina Press
Board of Governors Meeting—September 25, 2013
Development Report

1. **Gifts for Fiscal Year 2014 To Date, Total: $251,420** (FY13 Total $482,016)

    Endowment Gifts: **$6,290** (FY13 Total $285,945)

    Annual Gifts: The UNC Press Club: **$6,350** (FY13 Total $70,494)

    Outside Title Subventions: **$6,075** (FY13 Total $23,775)

    Other: **$251,250** (FY13 Total $1802)

    Development has had a strong start to fiscal year 2014 because of the $250,000 grant from the William R. Kenan Charitable Trust for investments in digital infrastructure. As with all major gifts, and as with the $100,000 grant from the Andrew W. Mellon Foundation that we received at the close of fiscal year 2013, this gift came after many months of homework and cultivation.

    Council member Bill Massey hosted a Press Club donor cultivation event at his home in Manteo earlier this month, highlighting John and featuring Press authors Bland and Ann Simpson. It was an excellent event for the Press which we hope to replicate across the state.

2. **UNC Press Advancement Council**

    - Final preparations are being made for the fall Advancement Council meeting which will be held in Charlotte on Monday, October 7th. The focus of the agenda will be revamping the Press Club, building on the Mellon Foundation and Kenan Charitable Trust grants, and thanking outgoing Council members (Renee Anderson, Luther Hodges, and Patty Norman) for their service.
    - The Council meeting will be preceded by a donor cultivation reception on Sunday, October 6th at the home of Council member Patty Norman with her husband Tommy. Joining the Normans in hosting this reception are Mary Lou and Jim Babb, Louise and Mark Bernstein (former Council), Cydne and Ray Farris (current Council), Cindi and Harvey Gantt, Missy and John Kuykendall (former Council), Clyda and George Rent, Marylyn and Ed Williams, and Martha and Jim Woodward (former Council). Karen Cox, Press author of *Dreaming of Dixie*, will be the featured author.
    - Dr. Dudley Flood and former Senator Richard Stevens will be joining the Advancement Council as of January 1, 2014. We may invite one other to join the Council with that class.

3. **Initiatives and Updates**

    - The Authors Fund is now official, with over one hundred and sixty authors agreeing to donate all or a portion of their royalties to this new expendable fund in support of young scholars or those in emerging fields of study. As of today, $9,540 exists in the Fund, and the acquisition editors have chosen eight (8) spring 2014 titles to benefit from the Authors Fund. The list of titles with descriptions and author bios follows.

AUTHORS FUND
2014 INAUGURAL RECIPIENTS

Aaron Ansell, *Zero Hunger: Political Culture and Antipoverty Policy in Northeast Brazil* (May 2014)

> In a vivid ethnography with an innovative approach to Brazilian politics, Aaron Ansell assesses President Luiz Inácio Lula da Silva's flagship antipoverty program, Zero Hunger (Fome Zero), focusing on its rollout among agricultural workers in the poor northeastern state of Piauí.
>
> Aaron Ansell teaches in the department of religion and culture at Virginia Tech.

Mary Fuhrer, *A Crisis of Community: The Trials and Transformation of a New England Town, 1815-1848* (March 2014)

> Examining the tumultuous Jacksonian era at the intimate level of family and community, Mary Babson Fuhrer brings to life the troublesome creation of a new social, political, and economic order centered on individual striving and voluntary associations in an expansive nation.
>
> Mary Babson Fuhrer is a public historian and independent scholar living in Boxborough, Massachusetts.

Laura Micheletti Puaca, *Searching for Scientific Womanpower: Technocratic Feminism and the Politics of National Security, 1940-1980* (June 2014)

> During the World War II and early Cold War years when anxiety about America's supply of scientific personnel ran high and when open support for women's rights generated suspicion, feminist reformers routinely invoked national security rhetoric and scientific "manpower" concerns in their efforts to advance women's education and employment. Despite the limitations of this strategy, it laid the groundwork for later feminist reforms in both science and society.
>
> Laura Micheletti Puaca is assistant professor of history at Christopher Newport University.

Zandria F. Robinson, *This Ain't Chicago: Race, Class, and Regional Identity in the Post-Soul South* (May 2014)

> In this important new work, Robinson analytically separates black southerners from their migrating cousins, fictive kin, and white counterparts and demonstrates how place intersects with race, class, gender, and regional identities and differences.
>
> Zandria Robinson is assistant professor of sociology at the University of Memphis.

Kathryn Steen, *The American Synthetic Organic Chemicals Industry: War and Politics, 1910-1930* (July 2014)

When World War I disrupted the supply of German chemicals to the United States, American entrepreneurs responded to the shortages and high prices by trying to manufacture chemicals domestically. Kathryn Steen argues that Americans' intense anti-German sentiment in World War I helped to forge a concentrated effort among firms, the federal government, and universities to make the United States independent of "foreign chemicals."

Kathryn Steen is associate professor of history at Drexel University in Philadelphia.

Angela Tarango, *Choosing the Jesus Way: American Indian Pentecostals and the Fight for the Indigenous Principle* (April 2014)

Drawing on new approaches to the global history of Pentecostalism, Angela Tarango shows how converted indigenous leaders eventually transformed a standard Pentecostal theology of missions in ways that reflected their own religious struggles and advanced their sovereignty within the Assemblies of God denomination.

Angela Tarango is assistant professor of religion at Trinity University.

Jennifer Thigpen, *Island Queens and Mission Wives: How Gender and Empire Remade Hawai'i's Pacific World* (March 2014)

Exploring the connections between women's work and colonization, this book addresses important questions about colonial processes not only in Hawai'i, but in many other locations across the globe.

Jennifer Thigpen is assistant professor of history at Washington State University.

Rudolph T. Ware III, *The Walking Qur'an: Islamic Education, Embodied Knowledge, and History in West Africa* (June 2014)

Spanning a thousand years of history, Rudolph Ware documents the profound significance of Qur'an schools for West African Muslim communities. Ware shows how in Senegambia the schools became powerful channels for African resistance during the eras of the slave trade and colonization. While illuminating the past, Ware also makes signal contributions to understanding contemporary Islam.

Rudolph T. Ware III is assistant professor of history at the University of Michigan.

The University of North Carolina Press
FY13 Financial Report to Board of Governors

FY13 net sales were $5.18 million – this was 3.2% below our $5.35 million revised sales forecast and 3.5% below FY12 net sales of $5.37 million. Due to accelerating inventory write-down and dumping overstock, the Press ended the year with a deficit of $160,293 after the allocation of endowment and operating reserve draws.

Below is a three-year comparison of key data from the year-end financial report:

		FY13 Actual	FY12 Actual	FY11 Actual
1	Print Sales	$4,696,357	$4,946,504	$5,138,409
2	eBook Sales	$485,340	$423,521	$244,653
3	Net Sales	$5,181,697	$5,370,025	$5,383,062
4	Cost of Sales	$2,058,876	$2,041,696	$2,136,464
	Cost of Sales Pct.	39.4%	38.0%	40.0%
5	Gross Margin	$3,172,821	$3,328,329	$3,246,597
	Gross Margin Pct.	60.6%	62.0%	60.0%
6	Operating Expenses	$4,953,317	$4,934,827	$4,798,209
7	Operating Deficit	($1,780,496)	($1,606,498)	($1,551,612)
8	Subsidiary Rights Income	$146,899	$228,393	$139,904
9	Other Income	$254,804	$236,501	$259,017
10	Deficit before Support	($1,378,793)	($1,141,604)	($1,152,691)
11	State/University Support	$518,500	$537,865	$518,500
12	Endowment Draw	$645,000	$645,000	$675,000
13	Operating Reserve Draw	$55,000	$0	$0
14	Total Support/Draws	$1,218,500	$1,182,865	$1,193,500
15	Net Surplus/(Deficit)	($160,293)	$41,261	$40,809
16	Cash Balance	$1,871,576	$2,292,566	$1,347,064
17	Accounts Receivable	$800,667	$188,816	$821,192
18	Inventory	$907,137	$1,146,447	$1,378,130
19	Investments	$16,420,158	$14,993,984	$14,884,770
20	Total Assets	$20,808,775	$19,508,297	$19,591,101
21	Total Liabilities	$2,387,975	$2,166,633	$2,298,437
22	Endowment Balance	$14,877,253	$13,589,551	$13,531,731

The **Statement of Operations** reports total **net sales (line 3)** of $5.18 million which is a 3.5% decrease compared to FY12 and FY11 net sales of $5.37 million and $5.38 million respectively. The majority of the sales shortfall in FY13 was due to an increase in sales returns of almost $138,000. Sales returns totaled $1.625 million, compared to $1.487 million in FY12 and $1.685 million in FY11. The returns rate (as a percentage of gross sales) increased to 23.7% from 22.0% in FY12.

Print sales (line 1) decreased 5% in FY13 to $4.69 million, after decreasing 3.7% in FY12. From FY11 to FY13 print sales decreased a total of $442,052 (8.6%), from $5,138 million to $4,696 million. Although **eBook sales (line 2)** grew by 14.6%, from $423,521 to $485,340, this rate of sales growth is much lower than the 73% growth experienced in FY12 and the 225% growth in FY11. eBook sales accounted for 9.4% of total net sales in FY13. Sales of print-on-demand titles, which are included in the print sales reported on line 1, totaled $391,600 – an increase of 9.5% over FY12. Sales of non-inventory products (eBooks and POD titles) totaled 17% of FY13 net sales. I expect that non-inventory products will continue to grow as a percentage of net sales.

Cost of Sales (line 4) in dollars increased by $17,180, which increased the Cost of Sales percentage from 38.0% to 39.4%. The major components of cost of sales are: 1) **Plant Costs** which are the costs of typesetting and preparing the manuscript for the printer; 2) **Printing and Binding Costs of Books Sold** which are expensed out on a per unit basis as books are sold; 3) **Inventory Write-Off** which include writing down the cost of slow-selling inventory, and the printing and binding costs for overstocked titles that are dumped; 4) **Royalties** which are the actual royalties authors earn based on sales (this does not include the payment of royalty advances); and 5) **Digital File Conversions and Storage** which include creating digital files for both new and backlist titles.

As noted above, John and I agreed to accelerate writing-off unsalable inventory and dumping overstock after a review of our inventory and stock situation. Although we had taken steps to reduce print runs in previous years, those reductions still led to overstock situations, and there was still quite a bit of older stock in the warehouse. Accelerating the write-off and dumping of stock added about $180,000 to FY13 cost of sales and decreased the inventory value from $1,146,447 at 6/30/2012 to $907,137 as of 6/30/2013. This additional write-off does not impact the cash position of the Press (since the inventory written-off and dumped was paid for in previous years), but allows us to reduce the quantity of books stored at the warehouse which will result in a cost-savings to the Press in FY14 and beyond.

Gross Margin (line 5) -- the sales dollars available to cover operating expenses after manufacturing and the other cost of sales are deducted -- decreased by $155,500 from $3.33 million in FY12 to $3.17 million in FY13. Similarly, the Gross Margin percentage decreased from 62.0% to 60.6%. The primary reason for the reduction in Gross Margin is the accelerated inventory write-off. Because of the lower year-end inventory value and even more reductions in new title print runs, we should see an increase to the Gross Margin in FY14. Increasing both gross margin dollars and percentages is an on-going goal of the Press in order to provide more funds to cover operating expenses, as well as to reduce the annual deficit before support.

Total Operating Expense (line 6) increased by $18,490, or 0.4%, from $4.93 million in FY12 to $4.95 in FY13. Although staff salary and benefit expenses increased by $194,000 (6.5%), we were able to achieve other departmental expense reductions in order to keep the overall expense increase under $20,000. The personnel related increases were the result of: 1) a 5% increase in our contribution to the State Health Plan, resulting in additional expense of $23,900; 2) an 8.5% increase in our contribution to the State Retirement Plan (from 13.12% to 14.23%), resulting in additional expense of $45,600; and 3) fully absorbing the salary of LCRM staff as grant funds were fully expended.

Although FY13 operating expenses increased slightly, it is worth noting that they were $10,000 less than the $5.05 million incurred in FY08. This decrease over time is attributable to cost-cutting measures practiced over the past five years.

Income from **Subsidiary Rights (line 8)** is composed of income the Press receives from granting rights for reprints, permissions, translations, book club adoptions, and the like, and is net of payments to the authors (generally 50%). This revenue totaled $147,000 and was $81,500 less than FY12 (which included a one-time fee of $75,000 received from the State of North Carolina to include the *Encyclopedia of North Carolina* and the six-volume *Dictionary of North Carolina Biography* in the State Library hosted NCPedia website), but $7,000 greater than FY11.

Other Income (line 9) increased by $18,300 over FY12 to $254,800. This includes expendable gifts to the Press Club - $70,600; income from the Journals program - $125,500; and income from the sale of damaged books - $25,500.

State and University Support (line 11) remained constant at $518,500. Last year we received one-time funding by the UNC-CH Budget Committee in the amount of $19,365 to reimburse the Press for an extraordinary building maintenance expense.

Endowment Draw (line 12) remained constant at $645,000 in FY13 and is based on our endowment spending policy. Due to the increases personnel costs we budgeted and took a draw in the amount of $55,000 from the **Operating Reserve Fund (line 13)** in FY13. This was the first time in four years that the Press made a draw on the operating reserve fund.

Net Surplus/Deficit (line 15) for FY13 was a deficit of ($160,300), compared to the surpluses of $41,300 and $40,800 earned in the previous two years. Without the accelerated inventory write-off, we would have essentially broken-even for the year.

The **Balance Sheet** continues to be healthy. **Cash (line 16)** represents funds maintained though two accounts at BB&T – a business checking account and a business savings account (which earns a nominal interest rate). Excess funds are transferred between the two accounts throughout the year based on current cash needs. The 6/30/13 cash balance of $1,871,576 is $420,990 less than a year ago. Much of this is due to the decrease in net sales (and increased sales returns) and longer collection period on accounts receivable through Longleaf, as noted below.

As noted in the past, the Press needs to maintain a large cash balance at the end of the fiscal year in order to cover the annual payment of royalties made each September. Royalty checks to be disbursed in September 2013 totaled just under $500,000.

Accounts Receivable Due from Longleaf (line 17) reflects outstanding monthly sales due from Longleaf, which is responsible for the collection of all accounts receivables and pays UNC Press and the other Longleaf client publishers based on monthly sales activity. The June 30, 2013 balance of $800,667 reflects outstanding sales due from Longleaf for five months, less an allowance for bad debts and reserve for future sales returns, as compared to the June 30, 2012 balance of $188,816 which reflected outstanding sales for four months less the allowances. The allowance for bad debts increased almost $27,000 slightly from $73,180 at 6/30/12 to $100,000 at 6/30/13; while the allowance for future sales returns decreased by $50,000 from $750,000 at 6/30/12 to $700,000 at 6/30/13.

Inventory (line 18) decreased by $239,300 from $1,146,500 at 6/30/12 to $907,100 at 6/30/13. This is the ninth year in a row that the inventory balance has decreased, from a peak of over $2.1 million at 6/30/2004; and is the first time since the mid 1980's that the inventory balance is below $1 million. Inventories include the paper, printing and binding costs for finished books in the warehouse plus plant costs (non-recurring, first copy costs such as typesetting, fees to translators, etc.) for books currently in the production cycle. All plant costs are charged to cost of sales at the time of publication; paper, printing and binding costs are maintained in inventory and expensed as copies are sold. So as not to overstate the inventory value, paper, printing and binding costs on unsold copies are written-off when they are considered to be obsolete. The FY13 inventory write-off (included in the Cost of Sales total reported on line 2) was $505,925, compared to the write-off totals of $418,000 in FY12 and $413,000 FY11 write-off. We continue to take advantage of print-on-demand technology to reduce initial print runs and print for a one-to-two-year time frame, rather than a three-to-five-year-time frame. This strategy will lead to lower inventory write-off, further decrease the inventory value, and have a positive impact on cash flow.

Investments (line 19) increased by $1,426,200 to $16,420,150 and include the total funds invested with the UNC Management Company – Press endowment ($14.9 million), Press Reserve Fund ($604,400), and Journals Reserve Funds ($915,000). The **Endowment balance (line 22)** increased $1,287,700 during FY13 to a 6/30/13 balance of $14.87 million. The endowment value reflects spending of $645,000, management fees of $74,000, market gain of $1,700,850, and new gifts totaling $305,800.

The accounting firm of McGladrey & Pullen, LLP was retained to perform the Press and Longleaf audits for FY13. The fees for the FY13 audit and tax preparation are expected to total $49,000 for UNC Press and Longleaf. McGladrey & Pullen have completed their audit work and expects to have the draft audit report completed by the end of September. The auditors are scheduled to meet with the Finance Committee on October 17, the results of which will be reported to the Board in November.

FY12 was the seventh year of business for **Longleaf Services, Inc.** As summarized on the chart below, Longleaf invoiced and shipped net orders totaling $14.5 million (**line 5**), a decrease of 4.7% over FY12. The increase in sales returns experienced by UNC Press during FY13 was also experienced by the other Longleaf client publishers (some to a much greater extent than UNC Press). Longleaf generated **Revenue** of $1,645,700 (**line 1**) against **Operating Expenses** of $1,678,600 (**line 3**) for an **Operating Deficit** of ($32,890) (**line 4**). The increased returns had a negative impact on both revenue and expenses in FY13. We continue to refine the client publisher rate structure to help cover unexpected spikes in sales returns.

		FY13 Actual	FY12 Actual	FY11 Actual
1	Revenue for Services Provided	$1,645,747	$1,664,456	$1,693,103
2	Fees paid to Maple-Vail	$871,910	$856,725	$915,261
3	Total Operating Expenses	$1,678,637	$1,636,191	$1,697,761
4	Net Surplus/(Deficit)	($32,890)	$28,265	($4,658)
5	Total Net Sales Invoiced	$14,513,062	$15,222,355	$14,989,910
6	Expenses as % of Net Sales	11.6%	10.8%	11.3%
7	MV Fee as % of Net Sales	6.0%	5.6%	6.1%

As far as our operating statement metrics, operating expenses as a percentage of net sales invoiced increased from 10.8% in FY12 to 11.6% in FY13 (slightly ahead of the 11.3% experienced in FY11) (**line 6**). Because of the increased sales returns, fees paid to Maple-Vail as a percentage of net sales invoiced increased from 5.6% in FY12 to 6.0% in FY13 (**line 7**). The goal for Longleaf is to have expenses closer to 10% of net sales, with fees to Maple-Vail no more 5% of net sales.

FY13 results for both the Press and Longleaf were good considering the increase in sales returns and the continuing transition from print to digital. The Press and Longleaf staffs continue to create operating efficiencies as we work to redefine the academic component of our book program and the impact of digital sales on the Longleaf business. Changes in workflow, as well as first print run reductions, will help the Press to reduce cost of sales in the coming year, as well as offer more distribution-type services across the UNC system.

Robbie Dircks
Associate Director & CFO
September 9, 2013

September 23, 2013

To: UNC Press Board of Governors
From: Robbie Dircks
Subject: Financial Highlights for September 25, 2013 Board Meeting

FY13 was a year of transition for both the Press and Longleaf as the publishing industry and academia continue the shift from print to digital. The Press ended the year with a deficit of ($160,293) due to the acceleration of inventory write-down and the dumping of overstock, while Longleaf ended the year with a deficit of ($32,890) due to a large increase in sales returns for a number of the client publishers. Despite the deficit, FY13 is the third year in which Longleaf did not require a draw from the operating reserve. The FY13 Financial Report to the Board will be emailed separately.

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The FY13 audit fieldwork went well and the audit is essentially complete. I expect to receive a draft of the final audit report by October 4. The Finance Committee is scheduled to meet with our auditors from McGladrey LLP on October 19 to review the June 30, 2013 audit reports. John O'Hara will report on the audit at the November 20 Board meeting.

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FY13 investment results yielded a gain, after management fees, of 11.8%. The June 30 investment balance was $16,399,077: endowment funds of $14.8 million, press operating reserve of $603,000, and journals reserve funds of $918,000.

The UNC Management Company earned a 1.3% market gain, after management fees, for the monthly of July. August results won't be available until after the Board meeting.

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Press sales through September 20 totaled $1,537,200. This is a bit behind our first-quarter sales projection of $1,900,000. The FY13 sales projection is $4.925 million, a 4.5% decrease compared to FY13 net sales of $5,155,200.

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The Longleaf Board of Directors will meet in November (date TBD) to review June 30 and FY13 year-to-date results, as well as continue the discussion of how to augment the services offered by Longleaf to the benefit of both current and future client publishers.