Grub Street, Inc.

Financial Statements

Years Ended December 31, 2014 and 2013

Grub Street, Inc.

Contents

RUANE & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Board of Directors
Grub Street, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of Grub Street, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, 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 audit. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Grub Street, Inc. as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

October 7, 2015

Ruane & Company, LLP

Grub Street, Inc.

Statements of Financial Position

December 31,		**2014**		2013
Assets				
Current:				
Cash and cash equivalents	**$**	**434 247**	$	335 391
Investment securities		**-**		5 257
Accounts receivable		**2 613**		3 840
Unconditional promises to give		**62 727**		96 077
Prepaid expenses		**2 180**		2 582
Total current assets		**501 767**		443 147
Property and equipment:				
Furniture & equipment		**140 246**		115 059
Leasehold improvements		**52 513**		52 513
		192 759		167 572
Less accumulated depreciation		**(71 113)**		(43 583)
Net property and equipment		**121 646**		123 989
Other assets:				
Security deposit		**13 417**		13 417
Total assets	**$**	**636 830**	$	580 553
Liabilities and Net Assets				
Current liabilities:				
Accounts payable	**$**	**7 637**	$	1 770
Accrued expenses		**1 124**		2 500
Credit card liability		**10 205**		11 153
Prepaid tuition and gift cards		**79 950**		76 309
Scholarship liability		**650**		3 909
Deferred revenue - tuition		**101 340**		63 970
Deferred revenue - grants		**-**		16 000
Deferred revenue - memberships		**40 833**		40 561
Total current liabilities		**241 739**		216 172
Net assets:				
Unrestricted		**320 937**		313 726
Temporarily restricted		**74 154**		50 655
Total net assets		**395 091**		364 381
Total liabilities and net assets	**$**	**636 830**	$	580 553

See accompanying notes to financial statements.

Grub Street, Inc.

Statements of Activities

Years ended December 31,	2014			2013		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Revenues and other support:						
Tuition and fees	**$ 986 263**	**$ -**	**$ 986 263**	$ 924 144	$ -	$ 924 144
Contributions	**415 693**	**53 503**	**469 196**	260 130	15 747	275 877
Muse and the Marketplace	**255 670**	**-**	**255 670**	247 756	-	247 756
Grants	**107 955**	**43 660**	**151 615**	72 660	-	72 660
Membership fees	**84 523**	**-**	**84 523**	90 960	-	90 960
Other income	**7 187**	**-**	**7 187**	-	-	-
Book sales	**1 755**	**-**	**1 755**	799	-	799
Gain (loss) on investments securities	**305**	**-**	**305**	(11)	-	(11)
Interest income	**257**	**-**	**257**	116	-	116
Net assets released from restrictions	**-**	**(73 664)**	**(73 664)**	24 406	(24 406)	-
Total revenue and other support	**1 859 608**	**23 499**	**1 883 107**	1 620 960	(8 659)	1 612 301
Expenses:						
Program services	**1 385 905**	**-**	**1 385 905**	1 363 878	-	1 363 878
Management and general	**256 332**	**-**	**256 332**	149 853	-	149 853
Fundraising	**210 160**	**-**	**210 160**	140 656	-	140 656
Total expenses	**1 852 397**	**-**	**1 852 397**	1 654 387	-	1 654 387
Change in net assets	**7 211**	**23 499**	**30 710**	(33 427)	(8 659)	(42 086)
Net assets, beginning of year	**313 726**	**$ 50 655**	**$ 364 381**	347 153	59 314	406 467
Net assets, end of year	**$ 320 937**	**$ 74 154**	**$ 395 091**	$ 313 726	$ 50 655	$ 364 381

See accompanying notes to financial statements.

Grub Street, Inc.

Statements of Functional Expenses

Years ended December 31,			2014				2013	
	Program Services	**Management and General**	**Fundraising**	**Total Expenses**	Program Services	Management and General	Fundraising	Total Expenses
Payroll	**$ 514 582**	**$ 118 750**	**$ 158 332**	**$ 791 664**	$ 274 803	$ 50 733	$ 97 238	$ 422 774
Muse and the Marketplace	**245 566**	**-**	**-**	**245 566**	199 130	-	-	199 130
Workshops	**189 524**	**-**	**-**	**189 524**	439 670	-	-	439 670
Payroll taxes and benefits	**62 286**	**14 374**	**19 165**	**95 825**	26 867	4 960	9 507	41 334
Consulting	**86 729**	**-**	**-**	**86 729**	100 052	-	-	100 052
Rent	**57 272**	**23 393**	**-**	**80 665**	59 833	24 439	-	84 272
Other program expenses	**52 785**	**-**	**-**	**52 785**	79 255	-	-	79 255
Professional fees	**-**	**42 492**	**-**	**42 492**	-	29 983	-	29 983
Materials and supplies	**29 669**	**12 119**	**-**	**41 788**	37 646	-	-	37 646
Credit card processing	**39 772**	**-**	**-**	**39 772**	38 602	-	-	38 602
Scholarships	**36 748**	**-**	**-**	**36 748**	28 731	-	-	28 731
Advertising	**30 027**	**-**	**-**	**30 027**	28 891	-	-	28 891
Depreciation	**19 546**	**7 984**	**-**	**27 530**	12 916	5 276	-	18 192
Direct fundraising costs	**-**	**-**	**25 732**	**25 732**	-	-	23 031	23 031
Payroll processing fees	**7 914**	**1 826**	**2 435**	**12 175**	7 482	1 726	2 302	11 510
IT and website costs	**7 709**	**3 149**		**10 858**	15 765			15 765
Miscellaneous	**-**	**10 299**	**-**	**10 299**	-	5 917	-	5 917
Conferences and meetings	**-**	**9 405**	**-**	**9 405**	8 633	6 762	3 307	18 702
Utilities	**5 776**	**2 359**	**-**	**8 135**	5 602	2 288	-	7 890
Printing and postage	**-**	**3 627**	**4 496**	**8 123**	-	11 745	5 271	17 016
Insurance	**-**	**6 555**	**-**	**6 555**	-	6 024	-	6 024
Total expenses	**$ 1 385 905**	**$ 256 332**	**$ 210 160**	**$ 1 852 397**	$ 1 363 878	$ 149 853	$ 140 656	$ 1 654 387

See accompanying notes to financial statements.

Grub Street, Inc.

Statements of Cash Flows

Years ended December 31,	**2014**	2013
Cash flows from operating activities:		
Change in net assets	**$ 30 710**	$ (42 086)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**27 530**	18 192
Donated securities included in contributions	**(10 412)**	(15 639)
Gain (loss) on investment securities	**(305)**	11
Changes in operating assets and liabilities:		
Accounts receivable	**1 227**	30 798
Unconditional promises to give	**33 350**	(23 743)
Prepaid expenses	**402**	546
Accounts payable	**5 867**	(3 775)
Accrued expenses	**(1 376)**	(16 255)
Accrued payroll	**-**	(9 366)
Credit card liability	**(948)**	2 944
Prepaid tuition and gift cards	**3 641**	22 810
Scholarship liability	**(3 259)**	3 909
Deferred revenue-tuition	**37 370**	17 704
Deferred revenue-grants	**(16 000)**	16 000
Deferred revenue-memberships	**272**	(1 157)
Net cash provided by operating activities	**108 069**	893
Cash flows from investing activities:		
Capital expenditures	**(25 187)**	(59 832)
Proceeds from sale of investment securities	**15 974**	10 371
Net cash used by investing activities	**(9 213)**	(49 461)
Net increase (decrease) in cash and cash equivalents	**98 856**	(48 568)
Cash and cash equivalents, beginning of year	**335 391**	383 959
Cash and cash equivalents, end of year	**$ 434 247**	$ 335 391

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

Organization and Purpose

Grub Street, Inc. (the “Organization”) was incorporated in Massachusetts on January 15, 2002. The Organization operates as a writing center and provides writing and publishing education in New England and throughout the country. The Organization provides writing workshops, seminars, and editorial and consulting services, hosts a yearly literary conference, administers a national book prize, runs advanced year long programs for serious writers, and hosts teenage writing workshops. Workshop tuition represents the Organization’s major source of revenue.

Accounts Receivable and Grants Receivable

Accounts receivables are recognized when students register for courses or workshops. Grants receivables are recognized according to the terms of the grant. The Organization extends credit to some of its students in the ordinary course of business.

Accounts and grants receivable are stated at cost, net of any allowance for doubtful accounts. The Organization uses the reserve for bad debt method of valuing doubtful accounts and grants receivable which is based on historical experience, coupled with a review of the current status of existing receivables. Based on management’s evaluation of each customer, the balance of the reserve for doubtful accounts, deducted against accounts receivable to properly reflect the realizable value, is $0 at both December 31, 2014 and 2013. The Organization considers all grants receivable to be fully collectible, and therefore, did not provide an allowance for doubtful accounts for the years ended December 31, 2014 and 2013.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Support, Revenue and Membership

The Organization’s primary sources of income are tuition and registration fees, contributions, grants, programs and membership dues. Revenue from membership dues and Incubator Project tuition are recorded as earned over the term of the membership or course, generally one year. Costs in connection with the memberships and Incubator Projects are charged to expenses as incurred.

Promises to give

Contributions are recognized when the donor makes a promise to give to The Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made.

Fair Value of Financial Instruments

The fair value of financial assets and liabilities is measured according to the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification. This guidance defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

Cash and cash equivalents, accounts receivable, unconditional promises to give expected to be collected in less than one year, grants receivable, prepaid expenses, accounts payable, accrued expenses, credit card liability, prepaid tuition and gift cards, scholarship liability, and deferred revenue approximate fair value because of the short-term nature of these items.

The fair value of unconditional promises to give expected to be collected in more than one year was estimated by the present value of future cash flows method. This fair value measurement is based on significant inputs that are not observable in the market. Key assumptions include a discount rate of 1% for both years ended December 31, 2014, and 2013.

Reclassifications

Certain reclassifications were made to the 2013 financial statements to conform to 2014 presentation.

2. Concentration of Credit Risk

The Organization maintains its cash accounts at two commercial banks. Cash accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. At December 31, 2014 and 2013, the Organization had $111,669 and $0 in uninsured cash balances.

3. Unconditional Promises to Give

Unconditional promises to give at December 31, 2014 and 2013 are as follows:

	2014	2013
Receivable in less than one year	$ 62,727	$ 86,169
Receivable in one to five years	-	10,000
Total unconditional promises to give	62,727	96,169
Less: Discounts to net present value	-	(92)
Net unconditional promises to give	$ 62,727	$ 96,077

Unconditional promises to give due in more than one year are recognized at fair value, using present value techniques and a discount rate of 1%, when the donor makes an unconditional promise to give to the Organization. No provision for estimated uncollectible promises to give has been made, as management considers all unconditional promises to give fully collectible.

4. Property and Equipment

Property and equipment are stated at cost. Depreciation is computed using the straight-line method over estimated useful lives of three to eleven years. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in current operations. Repairs and maintenance charges that do not increase the useful life of the assets are charged to operations as incurred.

5. Contributed Services

During the years ended December 31, 2014 and 2013, the value of contributed services meeting the requirement for recognition in the financial statements was not material and has not been recorded.

6. Functional Allocation of Expenses

The cost of providing the program and management activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited, based either on an analysis of personnel time on the related activities, or the amount of office space exclusively designated for programs.

7. Income Taxes

The Organization is exempt from federal and state income taxes under the provision of Section 501(c) (3) of the Internal Revenue Code. The Organization is subject to income tax on unrelated business income. Generally, the Organization's information returns remain open for federal and state examination for three years from the date of filing.

8. Deferred Revenue

Membership dues and Incubator Project tuition are collected in advance and recognized over the term of the membership or course, generally one year. Deferred membership dues as of December 31, 2014 and 2013 were $40,833 and 40,561, respectively. Deferred tuition as of December 31, 2014 and 2013 was $101,340 and $63,970, respectively.

Deferred grant revenue is recorded when a fee for services grant has been received and the specific conditions of the grant have not been met. Deferred grant revenue as of December 31, 2014 and 2013 was $0 and $16,000, respectively.

9. Fair Value of Financial Instruments

In accordance with the Fair Value Measurements and Disclosures topic of the FASB Accounting Standards Codification, the organization groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

- Level 1 –Unadjusted market prices for identical assets and liabilities in an active market that the Organization has the ability to access.

- Level 2 – Inputs other than the quoted prices in active markets that are observable either directly or indirectly.

- Level 3 – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

Accounting standards require the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value. There have been no changes in the methodologies used at December 31, 2014.

9. Fair Value of Financial Instruments (Continued)

Corporate Stock– The estimated fair value is determined using quoted prices in an active market for an identical asset.

Assets measured at fair value on a recurring basis at December 31, 2014 were as follows:

Description	12/31/2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Stock:	-	-	-	-
Total	-	-	-	-

Assets measured at fair value on a recurring basis at December 31, 2013 were as follows:

Description	12/31/2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate Stock:	$5,257	$5,257	-	-
Total	$5,257	$5,257	-	-

For the years ended December 31, 2014 and 2013, there were no significant transfers in or out of Levels 1, 2, or 3.

10. Net Assets

The Organization's financial statement presentation is in accordance with generally accepted accounting principles for not-for-profit organizations. Under this guidance, the Organization has reported information regarding its financial position and activities according to three classes of net assets based on the absence or existence of donor-imposed restrictions: unrestricted net assets which are not subject to donor-imposed restriction or stipulations as to purpose or use, temporarily restricted net assets which are subject to donor-imposed restrictions or stipulations that may or will be met either by actions of the Organization or the passage of time, and permanently restricted net assets. At December 31, 2014 and 2013, the Organization had no permanently restricted net assets and $74,154 and $50,655 of temporarily restricted net assets to be used in specified future periods, respectively.

11. Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Related Party Transactions

Teacher Fees

The Organization pays teaching and consulting fees to one of its directors as an independent contractor. Total payments to the director for teaching and consulting fees for the years ended December 31, 2014 and 2013 were $11,022 and $22,276, respectively.

Contributions

One of the Organization's directors made a $20,000 contribution during 2010 which is payable over four years. The amount due and included in unconditional promises to give, at December 31, 2014 and 2013 was $3,750 and $6,250, respectively.

Two of the Organization's directors made short term promises to give in in 2014 and 2013. The amount due and included in unconditional promises to give at December 31, 2014 and 2013 was $5,000 and $5,000, respectively.

13. Advertising

The Organization expenses advertising costs as incurred. Total advertising costs charged to expense for the year ended December 31, 2014 and 2013 were $30,027, and 28,891, respectively.

14. Retirement Plan

The Organization maintains a qualified deferred compensation plan for all eligible employees. The Organization provides matching contributions equal to 30% of the employee's elective deferral, limited to 6% of the employee's compensation. The Organization provided $7,703 and $3,629 of matching contributions for the years ended December 31, 2014 and 2013, respectively.

15. Commitments

The Organization rents office space under a lease that expires on December 31, 2016. Total office rent for the years ended December 31, 2014 and 2013 was $80,500 and 83,972, respectively. Future minimum rentals for operating leases with non-cancelable terms of one year or more are as follows:

Year ending December 31,		Total Commitment
2015	$	80,500
2016		80,500
2017		-
2018		-
2019		-
Total	$	161,000

16. Line of Credit

The Organization has a $62,000 line of credit with a financial instituition which it may draw upon to provide necessary working capital. Interest at a rate of 1.5% over prime, with a minimum of 4.25%, accrues on the outstanding balance. The line is secured by all of the Organization's assets. There was no outstanding balance at both December 31, 2014 and 2013.

17. Subsequent Events Review

Subsequent events have been evaluated through October 7, 2015, the date the financial statements were available to be issued.