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Grub Street, Inc.



Financial Statements

Years Ended December 31, 2013 and 2012

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2013
Audit

04/028

Grub Street, Inc.

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2013
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04/028

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, 2013 and 2012, 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, 2013 and 2012, 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.

April 23, 2014

Ruane & Company, LLP

Grub Street, Inc.

Statements of Financial Position

<i>December 31,</i>	2013	2012
Assets		
Current:		
Cash and cash equivalents	\$ 335 391	\$ 383 959
Investment securities	5 257	-
Accounts receivable	3 840	34 638
Unconditional promises to give	96 077	72 334
Prepaid expenses	2 582	3 128
Total current assets	443 147	494 059
Property and equipment:		
Furniture & equipment	115 059	61 246
Leasehold improvements	52 513	46 494
	167 572	107 740
Less accumulated depreciation	(43 583)	(25 391)
Net property and equipment	123 989	82 349
Other assets:		
Security deposit	13 417	13 417
Total assets	\$ 580 553	\$ 589 825
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 15 423	\$ 41 875
Prepaid tuition and gift cards	76 309	53 499
Scholarship liability	3 909	-
Deferred revenue - tuition	63 970	46 266
Deferred revenue - grants	16 000	-
Deferred revenue - memberships	40 561	41 718
Total current liabilities	216 172	183 358
Net assets:		
Unrestricted	313 726	347 153
Temporarily restricted	50 655	59 314
Total net assets	364 381	406 467
Total liabilities and net assets	\$ 580 553	\$ 589 825

See accompanying notes to financial statements.

Grub Street, Inc.

Statements of Activities

<i>Years ended December 31,</i>	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues and other support						
Tuition and fees	\$ 924 144	\$ -	\$ 924 144	\$ 843 996	\$ -	\$ 843 996
Contributions	260 130	15 747	275 877	248 991	19 900	268 891
Grants	72 660	-	72 660	72 540	-	72 540
Muse and the Marketplace	247 756	-	247 756	251 650	-	251 650
Membership fees	90 960	-	90 960	90 358	-	90 358
Book sales	799	-	799	2 680	-	2 680
Interest income	116	-	116	74	-	74
Gain (loss) on investments securities	(11)	-	(11)	185	-	185
Net assets released from restrictions	24 406	(24 406)	-	13 666	(13 666)	-
Total revenue and other support	1 620 960	(8 659)	1 612 301	1 524 140	6 234	1 530 374
Expenses:						
Program services	1 302 305	-	1 302 305	1 102 988	-	1 102 988
Management and general	213 728	-	213 728	265 021	-	265 021
Fundraising expenses	138 354	-	138 354	104 690	-	104 690
Total expenses	1 654 387	-	1 654 387	1 472 699	-	1 472 699
Change in net assets	(33 427)	(8 659)	(42 086)	51 441	6 234	57 675
Net assets, beginning of year	347 153	59 314	406 467	295 712	53 080	348 792
Net assets, end of year	\$ 313 726	\$ 50 655	\$ 364 381	\$ 347 153	\$ 59 314	\$ 406 467

See accompanying notes to financial statements.

Grub Street, Inc.

Statements of Functional Expenses

Years ended December 31,	2013				2012			
	Program Services	Management and General	Fundraising	Total Expenses	Program Services	Management and General	Fundraising	Total Expenses
Workshops	\$ 439 670	\$ -	\$ -	\$ 439 670	\$ 453 136	\$ -	\$ -	\$ 453 136
Payroll	274 803	50 733	97 238	422 774	219 508	90 831	68 123	378 462
Muse and the Marketplace	199 130	-	-	199 130	173 269	-	-	173 269
Consulting	100 052	-	-	100 052	66 068	25 709	-	91 777
Rent	59 833	24 439	-	84 272	82 223	-	-	82 223
Other program expenses	79 255	-	-	79 255	34 245	13 987	-	48 232
Miscellaneous	-	56 029	-	56 029	-	44 222	-	44 222
Materials and supplies	37 922	15 489	-	53 411	-	38 092	-	38 092
Payroll taxes and benefits	26 867	4 960	9 507	41 334	21 618	8 536	5 412	35 566
Professional fees	-	29 983	-	29 983	27 482	-	-	27 482
Advertising	28 891	-	-	28 891	-	-	26 505	26 505
Scholarships	28 731	-	-	28 731	-	26 268	-	26 268
Direct fundraising costs	-	-	23 031	23 031	4 712	5 121	1 263	11 096
Conferences and meetings	8 633	6 762	3 307	18 702	7 600	3 104	-	10 704
Depreciation	12 916	5 276	-	18 192	6 004	2 453	-	8 457
Printing and postage	-	11 745	5 271	17 016	-	6 497	-	6 497
Utilities	5 602	2 288	-	7 890	6 300	-	-	6 300
Insurance	-	6 024	-	6 024	823	201	3 387	4 411
Total expenses	\$ 1 302 305	\$ 213 728	\$ 138 354	\$ 1 654 387	\$ 1 102 988	\$ 265 021	\$ 104 690	\$ 1 472 699

See accompanying notes to financial statements.

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Grub Street, Inc.

Statements of Cash Flows

<i>Years ended December 31,</i>	2013	2012
Cash flows from operating activities:		
Change in net assets	\$ (42 086)	\$ 57 675
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	18 192	10 704
Donated securities included in contributions	(15 639)	(2 964)
Gain (loss) on investment securities	11	(185)
Changes in operating assets and liabilities:		
Accounts receivable	30 798	(33 187)
Unconditional promises to give	(23 743)	(19 254)
Grants receivable	-	7 500
Prepaid expenses	546	2 140
Accounts payable and accrued expenses	(26 452)	30 275
Prepaid tuition and gift cards	22 810	21 131
Scholarship liability	3 909	-
Deferred revenue-tuition	17 704	23 922
Deferred revenue-grants	16 000	-
Deferred revenue-memberships	(1 157)	(683)
Net cash provided by operating activities	893	97 074
Cash flows from investing activities:		
Capital expenditures	(59 832)	(62 511)
Proceeds from sale of investment securities	10 371	8 594
Net cash used by investing activities	(49 461)	(53 917)
Net increase (decrease) in cash and cash equivalents	(48 568)	43 157
Cash and cash equivalents, beginning of year	383 959	340 802
Cash and cash equivalents, end of year	\$ 335 391	\$ 383 959

See accompanying notes to financial statements.

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Grub Street, Inc.

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, 2013 and 2012. 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, 2013 and 2012.

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.

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Grub Street, Inc.

Notes to Financial Statements

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 and accrued expenses, prepaid tuition and gift cards, scholarship liability, credit card 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, 2013, and 2012.

Reclassifications Certain reclassifications were made to the 2012 financial statements to conform to 2013 presentation.

2. Concentration of Credit Risk The Organization's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents. It is the Organization's policy to place its cash and cash equivalents with high quality financial institutions. The Organization

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Grub Street, Inc.

Notes to Financial Statements

2. Concentration of Credit Risk (Continued) does not believe significant credit risk exists with respect to these institutions.

3. Unconditional Promises to Give Unconditional promises to give at December 31 are as follows:

	2013	2012
Receivable in less than one year	\$ 86,169	\$ 37,750
Receivable in one to five years	10,000	35,000
Total unconditional promises to give	96,169	72,750
Less: Discounts to net present value	(92)	(416)
Net unconditional promises to give	\$ 96,077	\$ 72,334

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 seven 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, 2013 and 2012, 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.

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Grub Street, Inc.

Notes to Financial Statements

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. 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, 2013.

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

Grub Street, Inc.

Notes to Financial Statements

8. Fair Value of Financial Instruments (Continued)

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

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

9. 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, 2013 and 2012, the Organization had no permanently restricted net assets and \$50,655 and \$59,314 of temporarily restricted net assets to be used in specified future periods, respectively.

10. 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, 2013 and 2012 were \$40,561 and 41,718, respectively. Deferred tuition as of December 31, 2013 and 2012 was and \$63,970 and \$46,266, respectively.

Deferred grant revenue is recorded if a grant has been received as a fee for service and the specific conditions of the grant have not been met.

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Grub Street, Inc.

Notes to Financial Statements

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- 10. Deferred Revenue (Continued)** Deferred grant revenue as of December 31, 2013 and 2012 was \$16,000 and \$0, 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, 2013 and 2012 were \$22,276 and \$19,916, 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, net of a \$0 and \$31 discount, at December 31, 2013 and 2012 was \$6,250 and \$9,969, respectively.
- One of the Organization's directors made a short term promise to give in 2013. Two of the Organizations directors made short term promises to give in 2012. The amount due and included in unconditional promises to give at December 31, 2013 and 2012 was \$5,000 and \$9,000, respectively.
- 13. Advertising** The Organization expenses advertising costs as incurred. Total advertising costs charged to expense for the year ended December 31, 2013 and 2012 were \$28,891, and 27,482, 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 \$3,629 and \$0 of matching contributions for the years ended December 31, 2013 and 2012, respectively.

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Grub Street, Inc.

Notes to Financial Statements

15. Commitments The Organization rents office space and equipment under leases that expire on various dates through December 31, 2016. Total office rent for the years ended December 31, 2013 and 2012 was \$83,972 and 88,652, 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
2014	\$ 80,500
2015	80,500
2016	80,500
2017	-
2018	-
Total	\$ 241,500

16. Line of Credit In 2013, the Organization opened a line of credit, payable on demand. The line of credit bears interest at the prime rate plus 1.5% per annum, minimum 4.25% per annum. Borrowings are to be used for working capital of the business, including real estate investment. The Organization has granted the bank a lien and security interest in all of its assets to secure the loan. There is no outstanding balance at December 31, 2013.

17. Subsequent Events Review Subsequent events have been evaluated through April 23, 2014, the date the financial statements were available to be issued.