

GRIST MAGAZINE, INC.

FINANCIAL REPORT

SEPTEMBER 30, 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Grist Magazine, Inc.
Seattle, Washington

We have audited the accompanying financial statements of Grist Magazine, Inc., which comprise the statements of financial position as of September 30, 2015 and 2014, 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; 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.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 statements, 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 for 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 Grist Magazine, Inc. as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Peterson Sullivan LLP.

April 1, 2016

601 Union Street
Suite 2300
Seattle, WA 98101

(206) 382-7777 **MAIN**
(206) 382-7700 **FAX**

pscpa.com

GRIST MAGAZINE, INC.

STATEMENTS OF FINANCIAL POSITION

September 30, 2015 and 2014

ASSETS	2015	2014
Current Assets		
Cash and cash equivalents	\$ 763,280	\$ 1,755,485
Short-term investments	1,389,213	792,137
Grants receivable	150,000	771,442
Accounts receivable, net	43,682	23,680
Prepaid expenses	41,939	76,053
Total current assets	2,388,114	3,418,797
Long-Term Investments	1,050,000	950,000
Grants Receivable, noncurrent, net	247,280	247,280
Property and Equipment, net	28,507	38,106
Total assets	<u>\$ 3,713,901</u>	<u>\$ 4,654,183</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 87,719	\$ 114,919
Accrued payroll	168,069	189,897
Total current liabilities	255,788	304,816
Deferred Lease Incentive	22,723	53,274
Total liabilities	278,511	358,090
Net Assets		
Unrestricted	2,724,660	2,207,650
Temporarily restricted	710,730	2,088,443
Total net assets	3,435,390	4,296,093
Total liabilities and net assets	<u>\$ 3,713,901</u>	<u>\$ 4,654,183</u>

See Notes to Financial Statements

GRIST MAGAZINE, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended September 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and contributions	\$ 2,384,466	\$ 206,250	\$ 2,590,716	\$ 1,781,258	\$ 512,608	\$ 2,293,866
In-kind contributions	51,726		51,726	117,347		117,347
Advertising	296,178		296,178	205,747		205,747
Investment income	15,488		15,488	19,862		19,862
Miscellaneous income	1,498		1,498	410		410
Net assets released from restrictions	1,583,963	(1,583,963)		1,410,110	(1,410,110)	
Total support and revenue	4,333,319	(1,377,713)	2,955,606	3,534,734	(897,502)	2,637,232
Operating Expenses						
Program services	2,860,936		2,860,936	2,502,551		2,502,551
Management and general	431,110		431,110	362,281		362,281
Fundraising	524,263		524,263	489,560		489,560
Total operating expenses	3,816,309		3,816,309	3,354,392		3,354,392
Change in net assets before legal settlement	517,010	(1,377,713)	(860,703)	180,342	(897,502)	(717,160)
Gain from legal settlement				21,407		21,407
Change in net assets	517,010	(1,377,713)	(860,703)	201,749	(897,502)	(695,753)
Net assets, beginning of year	2,207,650	2,088,443	4,296,093	2,005,901	2,985,945	4,991,846
Net assets, end of year	\$ 2,724,660	\$ 710,730	\$ 3,435,390	\$ 2,207,650	\$ 2,088,443	\$ 4,296,093

See Notes to Financial Statements

GRIST MAGAZINE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Years Ended September 30, 2015 and 2014

	Program Services					2015 Total	2014 Total
	Editorial	Readership Expansion	Production and Distribution	Total Program Services	Management and General		
Salaries and wages	\$ 999,420	\$ 303,307	\$ 427,164	\$ 1,729,891	\$ 292,732	\$ 317,926	\$ 1,760,703
Payroll taxes	87,702	27,254	38,383	153,339	26,304	30,673	163,685
Employee benefits	80,474	25,008	35,220	140,702	24,135	28,144	171,430
Professional services	194,596	55,265	22,683	272,544	27,090	73,135	517,755
Travel		131,390		131,390	1,720	3,617	101,479
Promotion		11,105	103,543	114,648			127,080
Rent	56,662	10,641	18,305	85,608	7,181	15,806	104,875
Platform (web & email) hosting and development tools	40,117	19,519	9,754	69,390	6,037	12,730	121,044
In-kind expenses	23,276	5,173	10,863	39,312	6,724	5,690	117,347
Small equipment and furniture purchases	21,333	1,347	3,142	25,822	3,553	3,817	27,082
Telephone	9,597	2,475	4,808	16,880	2,556	2,173	19,126
Processing fees	185	37	80	302	9,948	8,670	19,200
Depreciation	7,158	1,378	4,446	12,982	3,042	1,994	19,748
Dues and subscriptions	3,394	1,767	6,894	12,055	1,859	2,950	16,165
Insurance	10,161	730	1,532	12,423	949	802	13,746
Supplies and materials	1,485	158	680	2,323	221	4,272	9,285
Printing and postage	1,175	136	283	1,594	510	4,368	9,196
Taxes					5,534		3,943
Repairs and maintenance	1,069	238	499	1,806	305	261	808
Miscellaneous	22,650	4,485	10,790	37,925	10,710	7,235	55,870
Total expenses - 2015	\$ 1,560,454	\$ 601,413	\$ 699,069	\$ 2,860,936	\$ 431,110	\$ 524,263	\$ 3,816,309
Total expenses - 2014	\$ 1,361,021	\$ 538,799	\$ 602,731	\$ 2,502,551	\$ 362,281	\$ 489,560	\$ 3,354,392

See Notes to Financial Statements

GRIST MAGAZINE, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Cash received from		
Foundations and individual donors	\$ 3,212,158	\$ 3,167,086
Advertising and other fees	277,674	260,903
Interest and dividends	63,433	67,311
Legal settlement		21,407
Cash paid for		
Personnel	(2,765,674)	(2,070,405)
Services and supplies	(1,026,356)	(1,121,365)
Net cash flows from operating activities	(238,765)	324,937
Cash Flows from Investing Activities		
Purchase of investments	(1,957,374)	(786,715)
Proceeds from sale of investments	1,212,353	917,928
Purchase of property and equipment	(8,419)	(8,901)
Net cash flows from investing activities	(753,440)	122,312
Net change in cash and cash equivalents	(992,205)	447,249
Cash and cash equivalents, beginning of year	1,755,485	1,308,236
Cash and cash equivalents, end of year	\$ 763,280	\$ 1,755,485
Reconciliation of Change in Net Assets to Net Cash		
Flows from Operating Activities		
Change in net assets	\$ (860,703)	\$ (695,753)
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	18,018	19,748
Net realized and unrealized losses on investments	47,945	47,449
Decrease (Increase) in		
Grants receivable	621,442	873,220
Accounts receivable	(20,002)	54,746
Prepaid expenses	34,114	482
Increase (Decrease) in		
Accounts payable	(27,200)	24,886
Accrued payroll	(21,828)	25,413
Deferred lease incentive	(30,551)	(25,254)
Net cash flows from operating activities	\$ (238,765)	\$ 324,937

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Grist Magazine, Inc. ("Grist") (www.grist.org) is the most influential and irreverent green media platform in the nation. Our mission is to set the agenda by showing how green, in all its forms, is reshaping our world. We are committed to cutting through the noise and empowering a new generation to make change.

Basis of Presentation

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of Grist and changes therein are classified as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions. See Note 5.

Temporarily restricted – Net assets subject to donor-imposed restrictions that will be met by actions of Grist and/or the passage of time. See Note 5.

Permanently restricted – Net assets subject to donor-imposed restrictions that they be maintained permanently by Grist. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes. Grist had no permanently restricted net assets at September 30, 2015 or 2014.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction is met in the year in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and are reported as net assets released from restrictions.

Revenue Recognition

Grants and contributions consist of unrestricted and temporarily restricted grants, contributions, and unconditional promises to give. Revenue is recognized when an unconditional grant or contribution is received or a pledge is made. Grants, contributions, or pledges that include donor-imposed conditions are not recognized until the conditions have been substantially met.

Advertising revenue is recognized, using cost-per-impression pricing, for the fees charged to customers as their ad campaigns or promotions are displayed across Grist's web properties.

Cash and Cash Equivalents

Cash and cash equivalents consist of general checking, savings, and money market accounts. Grist maintains its cash and cash equivalents in bank accounts that may exceed federally insured limits at times during the year. Grist has not experienced any losses in these accounts, and management does not believe it is exposed to any significant credit risk.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs, such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Investments

Investments consist of fixed-income securities with purchase maturity dates greater than three months in length. Grist accounts for investments at fair value using Level 1 inputs (quoted market prices). Investments consist of corporate bonds and accrued interest at September 30, 2015 and 2014. Realized or unrealized gains and losses are included in the change in net assets. The investments are invested in the following sectors at September 30:

	<u>2015</u>	<u>2014</u>
Corporate Bonds		
Financial services	\$ 811,992	\$ 309,431
Consumer cyclical	700,926	101,162
Industrials	311,244	309,579
Utilities	202,920	101,632
Healthcare	200,141	203,348
Communication services	100,225	101,696
Technology	100,027	302,003
Consumer defensive		302,149
Accrued Interest	11,738	11,137
	<u>\$ 2,439,213</u>	<u>\$ 1,742,137</u>

Grist has designated a portion of the total investment balance to be set aside as a reserve fund. The reserve fund is presented as long-term investments on the statements of financial position.

Return on these investments and on operating bank accounts for the years ended September 30 is summarized below and is included in investment income on the statements of activities:

	<u>2015</u>	<u>2014</u>
Interest and dividends from investments	\$ 61,993	\$ 66,560
Interest on operating bank accounts	1,440	751
Realized and unrealized losses	(47,945)	(47,449)
	<u>\$ 15,488</u>	<u>\$ 19,862</u>

Investment activity above is presented net of investment fees paid to fund managers (amounting to \$5,294 and \$4,377 for the years ended September 30, 2015 and 2014, respectively).

Grants and Accounts Receivable

Grants are recognized when the unconditional pledge to grant is made. Short-term grants receivable are recognized at the amounts expected to be collected; long-term grants receivable are recognized at fair value (based on appropriate discount rates and allowances for doubtful accounts). Discount rates are based on the credit worthiness of the donors and history of collections. Discounts are recognized as revenue over the term of the gift using the effective interest method.

Accounts receivable are comprised of amounts related to advertising services provided and are stated at the outstanding principal balances. All receivables are expected to be collected within one year.

Management reviews the collectibility of grants and accounts receivable on a regular basis and determines the amount estimated to be uncollectible. A reserve for doubtful accounts is then established and management charges off receivables against the allowance when it determines that a receivable is not collectible. An allowance of \$600 on accounts receivable was considered necessary at September 30, 2015. There was no such allowance on grants receivable. No allowance for grants or accounts receivable was considered necessary at September 30, 2014.

Property and Equipment

Equipment is recorded at cost or, if donated, at fair value at date of donation. Equipment with an original purchase price greater than \$2,000 is capitalized and depreciated using the straight-line method over the estimated useful lives of the assets, typically three to five years. The cost of repairs and maintenance is charged to expense as incurred.

Concentrations

For the year ended September 30, 2015, 21% of Grist's grants and contributions was from two donors, and for the year ended September 30, 2014, 36% was from three foundations. Of the grants receivable balance at September 30, 2015, 100% was due from three grantors, and for 2014, 72% was due from two grantors.

For the years ended September 30, 2015 and 2014, 35% and 43%, respectively, of advertising revenue was from one customer. Of the accounts receivable balance at September 30, 2015, 79% was due from five customers, and for 2014, 100% was due from three customers.

In-Kind Contributions

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise, which Grist would otherwise need to purchase. Contributed services are recorded at rates that would have been paid for similar services if purchased. During the years ended September 30, 2015 and 2014, in-kind contributions received included legal services, annual software licensing, consulting services (in 2014 only), and goods used for donor incentives and reader events.

Advertising Costs

Grist expenses the cost of advertising as it is incurred. For the years ended September 30, 2015 and 2014, advertising expenses totaled \$96,865 and \$123,610, respectively, and are included in promotion on the statements of functional expenses.

Related Party Transactions

In addition to fiscal oversight and strategic leadership, Grist receives financial support from its Board of Directors and entities with which they are affiliated. This support is provided during the normal course of business and is recorded as grants and contributions in the statements of activities.

Federal Income Taxes

The Internal Revenue Service has recognized Grist Magazine, Inc. as exempt from federal income taxes under provision of Section 501(a) of the Internal Revenue Code as an entity described in Section 501(c)(3), and not as a private foundation. Grist is subject to federal income taxes on certain advertising revenues since they are not substantially related to Grist programs. Income tax expense incurred for the years ended September 30, 2015 and 2014, was not significant.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the 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.

Subsequent Events

Grist has evaluated subsequent events through the date these financial statements were available to be issued, which was April 1, 2016.

Note 2. Grants Receivable

Grants receivable consists of the following at September 30:

	2015	2014
Receivable in less than one year	\$ 150,000	\$ 771,442
Receivable in one to five years	250,000	250,000
	400,000	1,021,442
Less: discount (1.10% in 2015 and 2014)	(2,720)	(2,720)
Net grants receivable	<u>\$ 397,280</u>	<u>\$ 1,018,722</u>

Grants receivable are recorded in the statements of financial position as follows:

	2015	2014
Current	\$ 150,000	\$ 771,442
Long-term	247,280	247,280
	<u>\$ 397,280</u>	<u>\$ 1,018,722</u>

Note 3. Property and Equipment

Property and equipment at September 30 were as follows:

	2015	2014
Furniture and equipment	\$ 76,940	\$ 68,520
Tenant office improvements	60,575	60,575
	137,515	129,095
Less: accumulated depreciation	(109,008)	(90,989)
Total property and equipment, net	<u>\$ 28,507</u>	<u>\$ 38,106</u>

Note 4. Lease Commitments

Grist leases office space under a non-cancelable lease that expires on May 31, 2016. Rent expense incurred for the years ended September 30, 2015 and 2014, was \$108,595 and \$104,875, respectively.

The office space lease included incentives to Grist for a tenant improvement allowance and several free months of rent at the beginning of the lease term. Grist records all incentives received as deferred lease incentives, which are being amortized over the lease term.

Subsequent to year-end, Grist signed a new lease for office space effective March 1, 2016. The non-cancelable lease expires on February 28, 2021. This new lease has been included in the lease commitment schedule below. Grist's previous lease, set to expire on May 31, 2016, was cancelled without penalty effective February 29, 2016.

Additionally, Grist leases office equipment under non-cancelable leases ranging in terms from 24-36 months. Rent expense incurred for the years ended September 30, 2015 and 2014, was \$11,646 and \$7,471, and is included as small equipment and furniture purchases in the statements of functional expenses.

Related minimum future rental commitments on these leases for the years ending September 30 are as follows:

2016	\$	178,148
2017		200,256
2018		202,998
2019		208,661
2020		214,525
Thereafter		90,402
Total	\$	<u>1,094,990</u>

Note 5. Net Assets

Unrestricted net assets were comprised of the following at September 30:

	<u>2015</u>	<u>2014</u>
Unrestricted and undesignated	\$ 1,674,660	\$ 1,257,650
Board designated – reserve fund	1,050,000	950,000
	<u>\$ 2,724,660</u>	<u>\$ 2,207,650</u>

Temporarily restricted net assets were comprised of the following at September 30:

	<u>2015</u>	<u>2014</u>
Time restricted	\$ 580,613	\$ 1,687,280
Purpose restricted		
Specific topical coverage or program support	130,117	401,163
	<u>\$ 710,730</u>	<u>\$ 2,088,443</u>

Included in the balance of net assets temporarily restricted by time is a grant recognized by Grist during the year ended September 30, 2013, for \$2,000,000. The grant is restricted for operational support through 2017 and is being released from restriction over that period.

Note 6. Employee Retirement Plan

Grist provides a 401(k) plan for regular full-time employees. At the discretion of the Grist Board of Directors, Grist may match a portion of employee contributions. Included in Grist's employee benefits are \$41,404 and \$40,888 of retirement expense related to this match for the years ended September 30, 2015 and 2014, respectively.

Note 7. Legal Settlement

In October 2006, Grist received notification that the third party administrator of its retirement plan had declared bankruptcy. All funds were believed to be lost and unrecoverable at that time. Grist's Board of Directors voted to reimburse employee contributions, matching funds provided by Grist, and earnings on those contributions. Since then, Grist has continued to consult with legal professionals regarding the situation and possible recovery of the funds. In January 2014, Grist received proceeds of \$21,407 from a legal settlement related to the bankrupt retirement plan.