

THE AMERICAN PROSPECT, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2008
(with comparative totals for December 31, 2007)

THE AMERICAN PROSPECT, INC.

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Board of Directors
The American Prospect, Inc.
Washington, District of Columbia

Independent Auditors' Report

We have audited the accompanying statement of financial position of The American Prospect, Inc. (the "Organization") as of December 31, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2007 financial statements and, in our report dated April 7, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The American Prospect, Inc. as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

February 17, 2009

Feeley & Driscoll, P.C.

THE AMERICAN PROSPECT, INC.

Statement of Financial Position

December 31, 2008
(with comparative totals for December 31, 2007)

Assets

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 154,479 | \$ 73,314 |
| Accounts receivable, net of allowance for doubtful accounts of \$5,581 and \$4,300 for 2008 and 2007, respectively | 118,653 | 174,391 |
| Prepaid expenses | 50,713 | 108,113 |
| Total current assets | <u>323,845</u> | <u>355,818</u> |
| Assets whose use is limited or restricted: | | |
| Cash | 274,667 | 100,000 |
| Contributions receivable | 348,000 | 230,000 |
| | <u>622,667</u> | <u>330,000</u> |
| Property and equipment: | | |
| Computer software | 121,749 | 135,985 |
| Computer hardware | 62,273 | 85,600 |
| Leasehold improvements | 31,588 | 43,966 |
| Furniture and fixtures | 37,510 | 35,302 |
| Machinery and equipment | 694 | 2,399 |
| | <u>253,814</u> | <u>303,252</u> |
| Less accumulated depreciation and amortization | 129,032 | 186,784 |
| | <u>124,782</u> | <u>116,468</u> |
| Other assets - | | |
| Security deposits | 47,634 | 27,004 |
| Total assets | <u>\$ 1,118,928</u> | <u>\$ 829,290</u> |

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Financial Position - Continued

December 31, 2008
(with comparative totals for December 31, 2007)

Liabilities and Net Assets (Deficit)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------------|-----------------------|
| Current liabilities: | | |
| Accounts payable | \$ 242,393 | \$ 249,440 |
| Accrued expenses | 115,849 | 136,006 |
| Deferred subscriptions | 538,412 | 606,285 |
| Total current liabilities | <u>896,654</u> | <u>991,731</u> |
| Commitments | | |
| Net assets (deficit): | | |
| Unrestricted: | | |
| Deficit | (400,393) | (542,441) |
| Board designated | - | 50,000 |
| | <u>(400,393)</u> | <u>(492,441)</u> |
| Temporarily restricted | 622,667 | 330,000 |
| Total net assets (deficit) | <u>222,274</u> | <u>(162,441)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 1,118,928</u> | <u>\$ 829,290</u> |

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Activities

For the year ended December 31, 2008
(with comparative totals for the year ended December 31, 2007)

| | 2008 | | | 2007 |
|--|---------------------|------------------------|-------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total | Total |
| Revenue and support: | | | | |
| Grants | \$ 1,297,462 | \$ 831,229 | \$ 2,128,691 | \$ 1,652,786 |
| Subscriptions | 601,627 | - | 601,627 | 634,209 |
| Contributions | 367,709 | - | 367,709 | 420,602 |
| Advertising | 304,072 | - | 304,072 | 244,239 |
| Mailing list sales | 44,613 | - | 44,613 | 109,095 |
| Newsstand sales | 35,644 | - | 35,644 | 13,676 |
| Realized loss on investments | (24,431) | - | (24,431) | - |
| Interest and dividends | 3,602 | - | 3,602 | 6,266 |
| | <u>2,630,298</u> | <u>831,229</u> | <u>3,461,527</u> | <u>3,080,873</u> |
| Net assets released from restrictions - | | | | |
| Satisfaction of donor restrictions, operations | 538,562 | (538,562) | - | - |
| | <u>3,168,860</u> | <u>292,667</u> | <u>3,461,527</u> | <u>3,080,873</u> |
| Total revenue and support | | | | |
| Expenses: | | | | |
| Program expenses | 2,391,539 | - | 2,391,539 | 2,278,764 |
| Management and general | 299,906 | - | 299,906 | 267,288 |
| Fundraising expenses | 385,367 | - | 385,367 | 366,958 |
| | <u>3,076,812</u> | <u>-</u> | <u>3,076,812</u> | <u>2,913,010</u> |
| Total expenses | | | | |
| Change in net assets | 92,048 | 292,667 | 384,715 | 167,863 |
| Net deficit, beginning of year | (492,441) | 330,000 | (162,441) | (330,304) |
| Net assets (deficit), end of year | <u>\$ (400,393)</u> | <u>\$ 622,667</u> | <u>\$ 222,274</u> | <u>\$ (162,441)</u> |

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Functional Expenses

For the year ended December 31, 2008
(with comparative totals for the year ended December 31, 2007)

| | 2008 | | | 2007 | |
|---|--------------------|----------------------|-------------------|--------------------|--------------------|
| | Program Expenses | Supporting Services | | Total | Total |
| | | Management & General | Fundraising | | |
| Payroll and related: | | | | | |
| Salaries | \$ 645,542 | \$ 164,692 | \$ 249,088 | \$ 1,059,322 | \$ 1,009,572 |
| Payroll taxes | 50,504 | 12,885 | 19,487 | 82,876 | 79,374 |
| Employee benefits | 49,125 | 12,532 | 18,955 | 80,612 | 68,300 |
| Total payroll and related | <u>745,171</u> | <u>190,109</u> | <u>287,530</u> | <u>1,222,810</u> | <u>1,157,246</u> |
| Magazine direct costs: | | | | | |
| Author fees and expenses | 345,395 | - | - | 345,395 | 336,479 |
| Direct mail | 199,338 | - | - | 199,338 | 138,624 |
| Subscription expenses | 111,886 | - | - | 111,886 | 125,186 |
| Art and design | 80,270 | - | - | 80,270 | 81,114 |
| Editorial costs | 19,713 | - | - | 19,713 | 76,645 |
| Total magazine direct costs | <u>756,602</u> | <u>-</u> | <u>-</u> | <u>756,602</u> | <u>758,048</u> |
| Marketing, general and administrative: | | | | | |
| Occupancy | 132,480 | 33,798 | 51,118 | 217,396 | 213,547 |
| Printing | 206,405 | - | 4,343 | 210,748 | 185,642 |
| Postage and mailing | 166,054 | 1,537 | 7,458 | 175,049 | 189,852 |
| Outside services | 138,833 | 16,575 | 5,250 | 160,658 | 104,262 |
| Travel | 44,462 | 15,848 | 772 | 61,082 | 85,754 |
| Depreciation and amortization | 48,886 | 2,897 | 4,381 | 56,164 | 39,461 |
| Internet and on-line fees | 39,412 | - | - | 39,412 | 15,965 |
| Insurance | 30,246 | 1,904 | 2,881 | 35,031 | 39,972 |
| Office expenses | 17,955 | 4,334 | 6,556 | 28,845 | 26,980 |
| Telephone | 16,375 | 4,177 | 6,318 | 26,870 | 10,500 |
| Accounting and legal fees | 853 | 21,463 | - | 22,316 | 20,028 |
| Promotion and advertising | 20,267 | - | - | 20,267 | 11,162 |
| Equipment maintenance and lease | 4,153 | 1,059 | 1,603 | 6,815 | 12,400 |
| Conference expense | 1,477 | - | 3,762 | 5,239 | 10,430 |
| Dues and subscriptions | 3,968 | - | - | 3,968 | 8,796 |
| Bad debt expense | - | 3,700 | - | 3,700 | 500 |
| Production other expenses | - | - | - | - | 8,834 |
| Other miscellaneous expenses | 17,940 | 2,505 | 3,395 | 23,840 | 13,631 |
| Total marketing, general and administrative | <u>889,766</u> | <u>109,797</u> | <u>97,837</u> | <u>1,097,400</u> | <u>997,716</u> |
| Total expenses | <u>\$2,391,539</u> | <u>\$ 299,906</u> | <u>\$ 385,367</u> | <u>\$3,076,812</u> | <u>\$2,913,010</u> |

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Statement of Cash Flows

For the year ended December 31, 2008
(with comparative totals for the year ended December 31, 2007)

| | <u>2008</u> | <u>2007</u> |
|--|-------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 384,715 | \$ 167,863 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 56,164 | 39,461 |
| Contributions restricted for long-term investments | (831,229) | (815,000) |
| Gain on sale of fixed assets | - | (1,245) |
| Proceeds from contributions receivable | (118,000) | (130,000) |
| Payments for limited use assets | (174,667) | 68,968 |
| Increase (decrease) in cash resulting from a change in: | | |
| Accounts receivable, net | 55,738 | (16,202) |
| Prepaid expenses | 57,400 | (43,592) |
| Accounts payable | (7,047) | 85,609 |
| Accrued expenses | (20,157) | 19,238 |
| Deferred subscriptions | (67,873) | (42,508) |
| Net cash used in operating activities | <u>(664,956)</u> | <u>(667,408)</u> |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (64,478) | (113,294) |
| (Payments for) proceeds from security deposit | (20,630) | 4,165 |
| Proceeds from sale of property and equipment | - | 1,245 |
| Net cash used in investing activities | <u>(85,108)</u> | <u>(107,884)</u> |
| Cash flows from financing activities - | | |
| Contributions restricted for long-term investments | <u>831,229</u> | <u>815,000</u> |
| Net cash provided by financing activities | <u>831,229</u> | <u>815,000</u> |
| Net increase in cash and cash equivalents | 81,165 | 39,708 |
| Cash and cash equivalents, beginning of year | <u>73,314</u> | <u>33,606</u> |
| Cash and cash equivalents, end of year | <u>\$ 154,479</u> | <u>\$ 73,314</u> |

See accompanying notes.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements

December 31, 2008

Note 1 - Organization

The American Prospect, Inc. (the "Organization") publishes a magazine, "The American Prospect", which contains scholarly and literary articles designed to educate the public on liberal philosophy, politics and public life. The Organization sponsors occasional conferences and workshops on subjects related to articles published in the magazine. The Organization also created and maintains an internet website for the purpose of educating the public on liberal philosophy, politics and public life.

The American Prospect, Inc. has an office in Washington, DC. The magazine is distributed throughout the United States and internationally.

The Organization's revenue sources are from sales related to the publication of "The American Prospect" magazine, website, special reports and grants received from private organizations and individuals.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting - The financial statements of the Organization have been prepared using the accrual basis of accounting. The Organization reports information regarding its financial position and activities according to three (3) classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization's two (2) classes of net assets are further classified for display purposes as follows:

Unrestricted funds are available for support of operations. Unrestricted funds also contain board designated funds, which represent unexpended funds available for support of operations over a specified period of time.

Temporarily restricted funds represent unexpended grants subject to restrictions for use for a specific purpose or with the passage of time.

The financial statements include certain prior-year summarized comparative information in total, but not disaggregated by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2007, from which the summarized information was derived.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure 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.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

December 31, 2008

Note 2 - Summary of Significant Accounting Policies - Continued

Reclassification of Prior Year Balances - Certain account balances as of December 31, 2007 have been reclassified to enhance the financial statement presentation and ensure comparability with the current year.

Cash and Cash Equivalents - The Organization considers all highly liquid investments purchased with an original maturity of three (3) months or less to be cash equivalents.

Allowance for Doubtful Accounts - An allowance for doubtful accounts is recorded to report accounts receivable at their net realizable value. Estimates for doubtful accounts are based on past collection experience together with a review of the current status of the existing receivables.

Assets Whose Use Is Limited or Restricted - Assets whose use is limited or restricted include assets specified by donors or grantors for specific purposes, including pledges.

Property and Equipment - Property and equipment are recorded at cost at the date of purchase or fair value at the date of contribution. Each asset's cost or fair market value is depreciated over their useful lives utilizing the straight-line method. The Organization's capitalization policy is to capitalize assets with a useful life of greater than one (1) year if the cost or fair market value exceeds \$600.

Depreciation and Amortization - Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the related assets as follows:

| <u>Assets</u> | <u>Life in Years</u> |
|--------------------------------|----------------------|
| Computer software and hardware | 3 |
| Leasehold improvements | 7 |
| Furniture and fixtures | 7 |
| Machinery and equipment | 5 |

Grant Revenues - Revenues from private charitable organizations and other unrestricted grants and contributions are recorded as unrestricted revenue and net assets when received or unconditionally committed. Revenues from donor restricted grants and contributions are recorded as temporarily restricted revenue and net assets when the Association receives a commitment. Revenue from special events is recognized when earned.

Deferred Subscriptions - Revenue from paid magazine subscriptions is deferred at the time the sales are made. As magazines are delivered to subscribers, revenue is included in income. Deferred subscription revenue is shown as a liability to represent subscriber receipts to be earned incrementally as each issue of the magazine is served.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

December 31, 2008

Note 2 - Summary of Significant Accounting Policies - Continued

Contributions - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to Give - Unconditional promises to give that are expected to be collected or paid within one (1) year are recorded at net realizable value. Unconditional promises to give that are expected to be collected or paid in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received or paid. Amortization of the discounts is included in contribution revenue or expense. Conditional promises to give are not included in support or expenses until the conditions are substantially met.

Functional Allocation of Expenses - Salaries are specifically allocated between program expenses, management and general, and fundraising. The related employee benefit expenses are allocated based on the percentage of specific salaries. Other remaining expenses are specifically allocated whenever practical, or are allocated based on salaries or space utilization.

Advertising - The Organization's policy is to expense advertising costs as they are incurred.

Federal Income Tax - The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code. Donors may deduct contributions made to the Organization based on Internal Revenue Code regulations.

In accordance with FASB Staff Position (FSP) 48-3, the Company has elected to defer the application of FASB Interpretation (FIN) 48 to fiscal years beginning after December 15, 2008. The Company has not evaluated its tax positions in accordance with FIN 48 and, therefore, cannot determine its effect.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

December 31, 2008

Note 3 - Contributions Receivable

Contributions receivable consisted of the following at December 31:

| | <u>2008</u> | <u>2007</u> |
|-----------------|-------------------|-------------------|
| Special issues | \$ 117,000 | \$ 30,000 |
| General support | <u>231,000</u> | <u>200,000</u> |
| | <u>\$ 348,000</u> | <u>\$ 230,000</u> |

Estimated annual collections on contributions receivable are as follows:

| | |
|--------------------|-------------------|
| Less than one year | <u>\$ 348,000</u> |
|--------------------|-------------------|

All contributions receivable are deemed to be collectible within one (1) year.

Note 4 - Commitments

The Organization entered into a non-cancelable lease at 1710 Rhode Island Ave, which commenced on August 1, 2008 and expires on August 31, 2018 with monthly rent of \$17,808. The Organization is required to pay additional rent at a rate of two and one-half percent (2.5%) after the first anniversary of the lease. Security deposits totaling \$35,615 were made upon the signing of the facility lease. Rent expense was \$89,083 and \$-0- for the years ended December 31, 2008 and 2007, respectively.

The Organization had a non-cancelable lease for a facility in Washington, DC at 2000 L Street, NW, which expired on August 31, 2008 and had monthly rent of \$14,498. The Organization was required to pay additional rent plus the difference between the base real estate tax and any increase in the real estate tax after the first anniversary of the lease. Security deposits totaling \$27,004 were made upon the signing of the facility lease. Rent expense was \$117,761 and \$177,027 for the years ended December 31, 2008 and 2007, respectively.

The Organization had a lease for storage space under the 2000 L Street, NW lease. Under the agreement, the Organization was required to pay monthly installments ranging from \$216 to \$222, expiring on August 31, 2008. Lease expense was \$1,772 and \$2,621 for the years ended December 31, 2008 and 2007, respectively.

The Organization commenced a lease for an office copier on August 1, 2008. Under the agreement, the Organization is required to pay monthly installments of \$230 expiring on December 30, 2011. Lease expense was \$1,150 and \$-0- for the years ended December 31, 2008 and 2007, respectively.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

December 31, 2008

Note 4 - Commitments - Continued

Minimum annual future rental payments are as follows for the year ending December 31:

| | | |
|------------|----|------------------|
| 2009 | \$ | 218,678 |
| 2010 | | 224,076 |
| 2011 | | 229,609 |
| 2012 | | 232,520 |
| 2013 | | 241,305 |
| Thereafter | | <u>1,204,621</u> |
| Total | \$ | <u>2,350,809</u> |

Note 5 - Retirement Plan

The Organization offers a defined contribution savings and investment plan under section 403(b) of the Internal Revenue Code (IRC), which allows employees to defer a portion of their pretax salary. Contributions are invested in a variety of funds at the discretion of the employee. The Organization does not match or contribute towards the employee's retirement fund. Employees' annual deduction cannot exceed \$15,000 unless the employee is over fifty (50) years old, in which case the total annual deduction cannot exceed the higher of \$20,000 or total annual salary. The Plan is available to employees who are eighteen (18) years of age or older.

Note 6 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at December 31:

| | <u>2008</u> | <u>2007</u> |
|-----------------|-------------------|-------------------|
| Special issues | \$ 125,000 | \$ 130,000 |
| General support | 400,000 | 200,000 |
| Writing fellow | <u>97,667</u> | <u>-</u> |
| Total | <u>\$ 622,667</u> | <u>\$ 330,000</u> |

Note 7 - Concentrations

The Organization receives a substantial amount of its operating revenue from private grants. If a significant reduction in the level of this support were to occur, the Organization's activities would be affected proportionately.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

December 31, 2008

Note 7 - Concentrations - Continued

On October 3, 2008, the Federal Deposit Insurance Corporation (FDIC) formally approved and increased the insurance limit to \$250,000 per banking institution per account owner from its previous limit of \$100,000 for all interest bearing accounts. All non-interest bearing accounts are fully insured. The temporary increase is in effect until December 31, 2009. The amount in excess of FDIC limits at December 31, 2008 and 2007 was \$-0-.

Note 8 - Restricted Cash

Restricted cash consisted of the following at December 31:

| | <u>2008</u> | <u>2007</u> |
|-----------------------------|-------------|-------------|
| Special issues and articles | \$ 274,667 | \$ 100,000 |

Note 9 - Program Expenses

Program expenses for the Organization have been disbursed by the following classifications for the years ending December 31:

| | <u>2008</u> | <u>2007</u> |
|----------------------------------|---------------------|---------------------|
| Publication | \$ 914,365 | \$ 776,542 |
| Wages payroll taxes and benefits | 745,171 | 699,189 |
| Circulation | 450,057 | 414,413 |
| Production allocation | 172,528 | 178,027 |
| TAP on-line | 89,151 | 182,185 |
| Marketing | 20,267 | 19,062 |
| Special programs | - | 9,346 |
| Total | <u>\$ 2,391,539</u> | <u>\$ 2,278,764</u> |