

THE AMERICAN PROSPECT, INC.

FINANCIAL STATEMENTS

JUNE 30, 2010



THE AMERICAN PROSPECT, INC.

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Feeley & Driscoll, P.C.

Certified Public Accountants / Business Consultants

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

Independent Accountants' Review Report

We have reviewed the accompanying statement of financial position of The American Prospect, Inc. (a nonprofit organization) as of June 30, 2010, and the related statements of activities, functional expenses and cash flows for the period from January 1, 2010 through June 30, 2010. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Organization's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

October 28, 2011

Feeley & Driscoll, P.C.

THE AMERICAN PROSPECT, INC.

Statement of Financial Position

June 30, 2010

Assets

Current assets:

Cash and cash equivalents	\$	43,686
Accounts receivable, net of allowance for doubtful accounts of \$10,941		72,135
Contributions receivable		150,000
Prepaid expenses		92,038
Total current assets		<u>357,859</u>

Property and equipment:

Computer software		122,004
Computer hardware		76,254
Leasehold improvements		32,376
Furniture and fixtures		38,204
		<u>268,838</u>
Less accumulated depreciation and amortization		<u>211,248</u>
		<u>57,590</u>

Other assets -

Security deposits		<u>40,240</u>
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Total assets	\$	<u><u>455,689</u></u>
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See accompanying independent accountants' review report
and notes to financial statements.

THE AMERICAN PROSPECT, INC.

Statement of Financial Position - Continued

June 30, 2010

Liabilities and Net (Deficit)

Current liabilities:	
Accounts payable	\$ 295,228
Accrued expenses	45,802
Deferred subscriptions	383,974
Total current liabilities	<u>725,004</u>
Long-term liabilities -	
Loan payable	<u>477,500</u>
Net (deficit) assets:	
Unrestricted	<u>(896,815)</u>
Temporarily restricted	150,000
Total net (deficit)	<u>(746,815)</u>
Total liabilities and net (deficit)	<u>\$ 455,689</u>

See accompanying independent accountants' review report
and notes to financial statements.

THE AMERICAN PROSPECT, INC.

Statement of Activities

For the period from January 1, 2010 through June 30, 2010

	Unrestricted	Temporarily Restricted	Total
Revenue and support:			
Grants	\$ -	\$ 295,000	\$ 295,000
Subscriptions	191,882	-	191,882
Advertising	46,112	-	46,112
Contributions	28,344	-	28,344
Mailing list sales	10,831	-	10,831
Newsstand sales	1,736	-	1,736
Interest and dividends	21	-	21
	<u>278,926</u>	<u>295,000</u>	<u>573,926</u>
Net assets released from restrictions -			
Satisfaction of donor restrictions, operations	<u>395,000</u>	<u>(395,000)</u>	<u>-</u>
Total revenue and support	<u>673,926</u>	<u>(100,000)</u>	<u>573,926</u>
Expenses:			
Program expenses	1,003,621	-	1,003,621
Management and general	147,005	-	147,005
Fundraising expenses	<u>141,556</u>	<u>-</u>	<u>141,556</u>
Total expenses	<u>1,292,182</u>	<u>-</u>	<u>1,292,182</u>
Change in net assets	<u>(618,256)</u>	<u>(100,000)</u>	<u>(718,256)</u>
Net (deficit) assets, beginning of period	<u>(278,559)</u>	<u>250,000</u>	<u>(28,559)</u>
Net (deficit) assets, end of period	<u>\$ (896,815)</u>	<u>\$ 150,000</u>	<u>\$ (746,815)</u>

See accompanying independent accountants' review report
and notes to financial statements.

THE AMERICAN PROSPECT, INC.

Statement of Functional Expenses

For the period from January 1, 2010 through June 30, 2010

	Program Expenses	Supporting Services		Total
		Management & General	Fundraising	
Payroll and related:				
Salaries	\$ 332,436	\$ 67,080	\$ 74,720	\$ 474,236
Employee benefits	30,517	7,473	4,908	42,898
Payroll taxes	28,125	6,887	4,523	39,535
Total payroll and related	<u>391,078</u>	<u>81,440</u>	<u>84,151</u>	<u>556,669</u>
Magazine direct costs:				
Author fees and expenses	123,741	-	-	123,741
Subscription expenses	72,694	-	-	72,694
Direct mail	69,975	-	-	69,975
Art and design	47,233	-	-	47,233
Editorial costs	30,395	-	-	30,395
Total magazine direct costs	<u>344,038</u>	<u>-</u>	<u>-</u>	<u>344,038</u>
Marketing, general and administrative:				
Occupancy	63,755	15,612	10,253	89,620
Printing	65,708	-	9,097	74,805
Postage and mailing	51,182	2,258	13	53,453
Outside services	22,160	-	27,303	49,463
Depreciation and amortization	17,156	4,201	2,759	24,116
Internet and on-line fees	21,067	-	-	21,067
Utilities	14,863	3,640	2,391	20,894
Accounting and legal fees	-	18,417	-	18,417
Travel	1,200	4,738	4,204	10,142
Insurance	4,480	1,097	721	6,298
Bad debt expense	-	5,360	-	5,360
Office expenses	2,283	559	367	3,209
Promotion and advertising	2,546	-	-	2,546
Equipment maintenance and lease	1,625	398	261	2,284
Conference expense	480	1,064	36	1,580
Interest	-	741	-	741
Other miscellaneous expenses	-	7,480	-	7,480
Total marketing, general and administrative	<u>268,505</u>	<u>65,565</u>	<u>57,405</u>	<u>391,475</u>
Total expenses	<u>\$ 1,003,621</u>	<u>\$ 147,005</u>	<u>\$ 141,556</u>	<u>\$ 1,292,182</u>

See accompanying independent accountants' review report and notes to financial statements.

THE AMERICAN PROSPECT, INC.

Statement of Cash Flows

For the period from January 1, 2010 through June 30, 2010

Cash flows from operating activities:	
Change in net assets	\$ (718,256)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	24,116
Increase (decrease) in cash resulting from a change in:	
Accounts receivable, net	477
Contributions receivable	32,097
Prepaid expenses	(9,966)
Accounts payable	(26,817)
Accrued expenses	(12,494)
Deferred subscriptions	26,641
Net cash used in operating activities	<u>(684,202)</u>
Cash flows from investing activities -	
Purchases of property and equipment	(9,270)
Net cash provided by investing activities	<u>(9,270)</u>
Cash flows from financing activities -	
Proceeds from loan payable	477,500
Net cash provided by financing activities	<u>477,500</u>
Net decrease in cash and cash equivalents	(215,972)
Cash and cash equivalents, beginning of year	<u>259,658</u>
Cash and cash equivalents, end of year	<u>\$ 43,686</u>

See accompanying independent accountants' review report
and notes to financial statements.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements

June 30, 2010

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.

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

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.

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.

See accompanying independent accountants' review report.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2010

Note 2 - Summary of Significant Accounting Policies - Continued

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

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 Organization receives a commitment.

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.

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.

See accompanying independent accountants' review report.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2010

Note 2 - Summary of Significant Accounting Policies - Continued

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. Tax years from 2007 through the current period remain open for examination by federal and state tax authorities.

Subsequent Events - The Organization has evaluated subsequent events through October 28, 2011 which is the date financial statements were available to be issued.

Note 3 - Contributions Receivable

Contributions receivable consisted of the following at June 30:

Special issues	\$	75,000
General support		<u>75,000</u>
	\$	<u><u>150,000</u></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 Avenue, 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 \$40,240 were made upon the signing of the facility lease. Rent expense was \$106,848 for the period from January 1, 2010 through June 30, 2010.

See accompanying independent accountants' review report.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2010

Note 4 - Commitments - Continued

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 \$1,380 for the period from January 1, 2010 through June 30, 2010.

The Organization commenced a lease for a mail exchanged machine on October 1, 2009. Under the agreement, the Organization is required to pay monthly installments of \$41 expiring on December 30, 2013. Lease expense was \$369 for the period from January 1, 2010 to June 30, 2010.

Minimum annual future rental payments are as follows for the year ending June 30:

2011	\$	246,409
2012		245,029
2013		243,649
2014		243,403
2015		243,157
Thereafter		<u>749,733</u>
Total	\$	<u>1,971,380</u>

Note 5 - Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30:

Special issues	\$	75,000
General support		<u>75,000</u>
Total	\$	<u>150,000</u>

See accompanying independent accountants' review report.

THE AMERICAN PROSPECT, INC.

Notes to Financial Statements - Continued

June 30, 2010

Note 6 - Loan Payable

During 2011, the Organization entered into a loan payable with Demos. Demos is a New York non-profit organization which promotes progressive ideas through the publication of books, reports, articles, blogs, public forums and advocacy programs. As of June 30, 2010, Demos' loaned the Organization \$477,500. The loan payable does not bear interest. Principal payments under the loan payable are due as follows for the years ending June 30:

2011	\$	-
2012		56,250
2013		139,062
2014		139,062
2015		139,063
Thereafter		<u>4,063</u>
Total	\$	<u>477,500</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 Organization has a potential concentration of credit risk in that it maintains deposits with a financial institution in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). The maximum deposit insurance amount is \$250,000 for interest-bearing accounts, which is applied per depositor, per insured depository institution for each account ownership category. Non-interest bearing transaction deposit accounts are provided unlimited insurance coverage through December 31, 2012. As of June 30, 2010, there were no deposits in excess of FDIC limits.

See accompanying independent accountants' review report.

