

The American Prospect, Inc.
Financial Statements
June 30, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

Board of Directors
The American Prospect, Inc.
Washington, DC

We have audited the accompanying financial statements of The American Prospect, Inc. (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 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 audits. 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 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 auditors' 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 The American Prospect, Inc. as of June 30, 2014 and 2013, 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 of America.

Syware, Lander + Co., LLP

January 9, 2015

THE AMERICAN PROSPECT, INC.

STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
ASSETS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,721	\$ 111,024
Accounts receivable, net of allowance for doubtful accounts of \$2,725 and \$3,854	45,973	71,691
Contributions and grants receivable	427,411	385,000
Prepaid expenses	85,624	70,116
TOTAL CURRENT ASSETS	\$ 564,729	\$ 637,831
PROPERTY AND EQUIPMENT:		
Computer hardware and software	\$ 102,339	\$ 102,339
Furniture and equipment	19,670	19,670
Leasehold improvements	-	32,376
Total property and equipment, at cost	\$ 122,009	\$ 154,385
Less, accumulated depreciation and amortization	(108,788)	(95,526)
TOTAL PROPERTY AND EQUIPMENT	\$ 13,221	\$ 58,859
OTHER ASSETS:		
Security deposits	\$ 4,105	\$ 39,240
TOTAL ASSETS	\$ 582,055	\$ 735,930
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 166,054	\$ 233,710
Accrued expenses	6,422	7,997
Deferred subscriptions	327,280	335,063
Financing loan obligations	15,434	-
Loans from affiliate	-	1,098,070
TOTAL CURRENT LIABILITIES	\$ 515,190	\$ 1,674,840
NET ASSETS (DEFICIT):		
Unrestricted net assets (deficit)	\$ (580,546)	\$ (1,471,410)
Temporarily restricted net assets	647,411	532,500
TOTAL NET ASSETS (DEFICIT)	\$ 66,865	\$ (938,910)
TOTAL LIABILITIES AND NET ASSETS	\$ 582,055	\$ 735,930

The accompanying notes are an integral part of these financial statements.

THE AMERICAN PROSPECT, INC.

STATEMENTS OF ACTIVITIES

	FOR THE YEAR ENDED JUNE 30, 2014			FOR THE YEAR ENDED JUNE 30, 2013		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
REVENUE AND SUPPORT:						
Grants	\$ 521,000	\$ 1,284,822	\$ 1,805,822	\$ 556,448	\$ 1,187,000	\$ 1,743,448
Contributions	684,243	-	684,243	415,759	-	415,759
Subscriptions	230,506	-	230,506	233,425	-	233,425
Advertising	201,392	-	201,392	182,860	-	182,860
Mailing list sales	8,390	-	8,390	20,549	-	20,549
Newsstand sales	11,573	-	11,573	15,980	-	15,980
Rental income	74,880	-	74,880	46,200	-	46,200
Royalties	16,198	-	16,198	28,332	-	28,332
Loss on disposal of fixed assets	(13,528)	-	(13,528)	-	-	-
Net assets released from restrictions	1,169,911	(1,169,911)	-	1,222,000	(1,222,000)	-
TOTAL REVENUE AND SUPPORT	<u>\$ 2,904,565</u>	<u>\$ 114,911</u>	<u>\$ 3,019,476</u>	<u>\$ 2,721,553</u>	<u>\$ (35,000)</u>	<u>\$ 2,686,553</u>
EXPENSES:						
Programs	\$ 2,568,281	\$ -	\$ 2,568,281	\$ 2,576,257	\$ -	\$ 2,576,257
Management and general	429,528	-	429,528	477,632	-	477,632
Fundraising	113,962	-	113,962	190,319	-	190,319
TOTAL EXPENSES	<u>\$ 3,111,771</u>	<u>\$ -</u>	<u>\$ 3,111,771</u>	<u>\$ 3,244,208</u>	<u>\$ -</u>	<u>\$ 3,244,208</u>
CHANGE IN NET ASSETS, BEFORE EXTRAORDINARY ITEM	\$ (207,206)	\$ 114,911	\$ (92,295)	\$ (522,655)	\$ (35,000)	\$ (557,655)
EXTRAORDINARY ITEM:						
Forgiveness of related party loans	1,098,070	-	1,098,070	-	-	-
CHANGE IN NET ASSETS	\$ 890,864	\$ 114,911	\$ 1,005,775	\$ (522,655)	\$ (35,000)	\$ (557,655)
NET ASSETS (DEFICIT):						
BEGINNING OF YEAR	<u>\$ (1,471,410)</u>	<u>\$ 532,500</u>	<u>\$ (938,910)</u>	<u>\$ (948,755)</u>	<u>\$ 567,500</u>	<u>\$ (381,255)</u>
END OF YEAR	<u>\$ (580,546)</u>	<u>\$ 647,411</u>	<u>\$ 66,865</u>	<u>\$ (1,471,410)</u>	<u>\$ 532,500</u>	<u>\$ (938,910)</u>

The accompanying notes are an integral part of these financial statements.

THE AMERICAN PROSPECT, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

	FOR THE YEAR ENDED JUNE 30, 2014				FOR THE YEAR ENDED JUNE 30, 2013			
	Supporting Services			Total	Supporting Services			Total
	Programs	Management and General	Fundraising		Programs	Management and General	Fundraising	
PAYROLL AND RELATED:								
Salaries	\$ 992,239	\$ 167,125	\$ 70,000	\$ 1,229,364	\$ 913,628	\$ 190,721	\$ 112,646	\$ 1,216,995
Employee benefits	83,333	14,036	5,879	103,248	64,018	13,364	7,893	85,275
Payroll taxes	73,845	12,437	5,210	91,492	65,507	13,675	8,077	87,259
TOTAL PAYROLL AND RELATED	\$ 1,149,417	\$ 193,598	\$ 81,089	1,424,104	\$ 1,043,153	\$ 217,760	\$ 128,616	1,389,529
MAGAZINE AND COMMUNICATION								
DIRECT COSTS:								
Advertising and marketing	\$ 19,972	\$ -	\$ -	\$ 19,972	\$ 16,433	\$ -	\$ -	\$ 16,433
Graphic and photo design	112,230	-	-	112,230	89,212	-	-	89,212
Fulfillment	134,114	-	-	134,114	145,333	-	-	145,333
Manuscript fees	277,868	-	-	277,868	407,959	-	-	407,959
Circulation services	72,410	-	-	72,410	62,025	-	-	62,025
Digital media	53,700	-	-	53,700	10,750	-	-	10,750
TOTAL MAGAZINE AND COMMUNICATION DIRECT COSTS:	\$ 670,294	\$ -	\$ -	\$ 670,294	\$ 731,712	\$ -	\$ -	\$ 731,712
SUPPORTING COSTS:								
Accounting	\$ -	\$ 78,244	\$ -	\$ 78,244	\$ -	\$ 87,537	\$ -	\$ 87,537
Administrative	109,445	18,434	7,721	135,600	126,999	26,511	15,659	169,169
Bad debt	-	1,291	-	1,291	-	15,014	-	15,014
Bank fees and license fees	12,344	2,079	871	15,294	11,108	2,319	1,370	14,797
Conference expenses	100	-	-	100	-	-	-	-
Consultants	10,489	1,767	740	12,996	8,196	1,711	1,011	10,918
Depreciation and amortization	-	32,110	-	32,110	-	35,527	-	35,527
Dues, subscriptions and publications	9,899	1,668	698	12,265	8,040	1,678	991	10,709
Equipment rental	7,604	1,281	536	9,421	8,790	1,835	1,084	11,709
Insurance costs	24,276	4,088	1,713	30,077	28,763	6,005	3,546	38,314
Interest expense	-	2,476	-	2,476	-	-	-	-
Information technology and communications	81,758	13,771	5,768	101,297	128,598	26,845	15,856	171,299
Legal expenses	-	7,711	-	7,711	-	17,329	-	17,329
Loss on security deposit	-	35,615	-	35,615	-	-	-	-
Occupancy costs	199,024	33,521	14,041	246,586	172,938	36,101	21,323	230,362
Postage	133,867	-	-	133,867	119,011	-	-	119,011
Printing	51,519	-	-	51,519	50,937	-	-	50,937
Repairs	-	-	-	-	1,296	270	160	1,726
Research	11,424	-	-	11,424	17,844	-	-	17,844
Staff expense	590	-	-	590	4,647	-	-	4,647
Supplies	11,128	1,874	785	13,787	5,699	1,190	703	7,592
Travel expense	85,103	-	-	85,103	108,526	-	-	108,526
TOTAL SUPPORTING COSTS	\$ 748,570	\$ 235,930	\$ 32,873	\$ 1,017,373	\$ 801,392	\$ 259,872	\$ 61,703	\$ 1,122,967
TOTALS	\$ 2,568,281	\$ 429,528	113,962	\$ 3,111,771	\$ 2,576,257	\$ 477,632	\$ 190,319	\$ 3,244,208

The accompanying notes are an integral part of these financial statements.

THE AMERICAN PROSPECT, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,005,775	\$ (557,655)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	32,110	35,527
Loss on disposal of assets	13,528	-
Forgiveness of loans from affiliate	(1,098,070)	-
Decrease (increase) in assets:		
Accounts receivable, net	25,718	57,235
Contributions and grants receivable	(42,411)	129,333
Prepaid expenses	(15,508)	(62,000)
Security deposits	35,135	1,000
Increase (decrease) in liabilities:		
Accounts payable	(67,656)	(1,039,143)
Accrued expenses	(1,575)	(136,183)
Deferred subscriptions	(7,783)	25,936
NET CASH USED FOR OPERATING ACTIVITIES	\$ (120,737)	\$ (1,545,950)
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Purchases of property and equipment	\$ -	\$ (1,269)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from financing loan obligations	\$ 24,157	\$ -
Principal repayments on loan obligations	(8,723)	-
Loans from affiliates	-	1,019,998
NET CASH PROVIDED BY FINANCING ACTIVITIES	\$ 15,434	\$ 1,019,998
NET DECREASE IN CASH AND CASH EQUIVALENTS	\$ (105,303)	\$ (527,221)
CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR	111,024	638,245
END OF YEAR	\$ 5,721	\$ 111,024
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 2,476	\$ -

The accompanying notes are an integral part of these financial statements.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 1. **Organization** - The American Prospect, Inc. (the Organization) publishes "The American Prospect", a magazine which contains scholarly and literary articles designed to inform the public on liberal philosophy, politics, and public life. The magazine is distributed and sold throughout the United States and internationally. The Organization also has an internet website for the purpose of informing the public on liberal philosophy, politics, and public life. The headquarters of the Organization is located in Washington, DC.

The Organization's revenue sources are from subscriptions and sales of "The American Prospect" magazine, royalty fees from reprints of articles, and advertising in the magazine in addition to grants and contributions received from individuals and foundations.

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 whereby revenue is recognized when earned and expenses are recorded when incurred.

Basis of Presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets are available for supporting operations while temporarily restricted net assets represent unexpended grants subject to restrictions for a specific purpose or with the passage of time. There were no permanently restricted net assets as of June 30, 2014 and 2013.

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 reported 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 months or less to be cash equivalents.

Receivables - Receivables are carried at the original invoice amounts less an estimate for doubtful receivables based on an annual review of all outstanding items. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

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 value is depreciated over their useful lives utilizing the straight-line method. Leasehold improvements are recorded over the lesser of the lease term or the useful lives of the improvements. The Organization's capitalization policy is to capitalize assets with a useful life greater than one year and the cost or fair value exceeds \$1,000.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

Note 2. **Summary of Significant Accounting Policies** (Continued)

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 hardware and software	3
Leasehold improvements	7 -10
Furniture and fixtures	7

Revenue Recognition for Contributions and Grants - Contributions and grants are recorded as revenue and net assets when funds or agreements are received or unconditionally pledged. Grants and contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of 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 statements of activities as net assets released from restrictions.

Advertising Revenue - Revenue is received from different corporations and organizations seeking to advertise in “The American Prospect” magazine and on the website, www.Prospect.org, through advertising emails and e-newsletter advertisements. Advertising revenue is recognized when the magazine is available for distribution.

Subscriptions Revenue - 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.

Other Revenue - Revenue from newsstand sales are recorded when the sales transactions occur. Mailing list sales and royalties revenue from reprints of articles are recorded as revenue when earned as the items are delivered. Rental income is recognized as revenue ratably over the rental lease period.

Functional Allocation of Expenses - Salaries are 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 allocated based on salaries or space utilization.

Advertising Expenses - Advertising costs are expensed as they are incurred.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 2. **Summary of Significant Accounting Policies** (Continued)

Federal Income Tax - The Organization is exempt from federal and state income taxes, except for unrelated business income, 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. No provision for federal or state income taxes has been made in the accompanying financial statements since the amount is not significant to the accompanying financial statements.

Accounting for Uncertain Tax Positions – The Organization complies with the provisions of FASB’s Accounting Standards Codification topic *Accounting for Uncertainty in Income Taxes*. For the years ended June 30, 2014 and 2013, no unrecognized tax provision or benefit exists. The Form 990, Return of Organization Exempt from Income Tax, for the fiscal years ending June 30, 2011 - 2013, is subject to review and examination by the Internal Revenue Service (IRS) although no request has been made.

Note 3. **Contributions and Grants Receivable** - Contributions and grants receivable consists of the following at June 30:

	2014	2013
Special issues	\$ 100,000	\$ 100,000
General support and time restricted	327,411	285,000
Totals	\$ 427,411	\$ 385,000

Estimated annual collections on contributions receivable are as follows:

Less than one year	\$ 427,411	\$ 385,000
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Note 4. **Property and Equipment** – Property and equipment, net of depreciation and amortization, consists of the following at June 30:

	2014	2013
Computer hardware and software	\$ 102,339	\$ 102,339
Furniture and equipment	19,670	19,670
Leasehold improvements	--	32,376
	\$ 122,009	\$ 154,385
Less, accumulated depreciation and amortization	(108,788)	(95,526)
Net property and equipment	\$ 13,221	\$ 58,859

For the years ended June 30, 2014 and 2013, depreciation and amortization expense totaled \$32,110 and \$35,527, respectively.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

Note 5. **Commitments** - The Organization had a lease agreement for office space at 1710 Rhode Island Avenue in Washington, DC, with monthly rent of \$17,808, which was terminated on June 30, 2014, prior to the lease expiration. Rent expense totaled \$246,586 and \$230,362 for the years ended June 30, 2014 and 2013, respectively.

On July 15, 2014, the Organization signed a sublease agreement for office space at 1333 H Street, N.W, in Washington, DC which ends on March 31, 2016. Future minimum annual rental payments in accordance with the sublease agreement are as follows for the year ending June 30:

2015		\$ 73,258
2016		58,670
Total		<u>\$ 131,928</u>

Note 6. **Temporarily Restricted Net Assets** - Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2014</u>	<u>2013</u>
Special issues	\$ 100,000	\$ --
General support - time restricted	<u>547,411</u>	<u>532,500</u>
Totals	<u>\$ 647,411</u>	<u>\$ 532,500</u>

Note 7. **Financing Loan Obligations** - During the year ended June 30, 2014, the Organization entered into two separate financing agreements for its annual insurance premiums with interest rates ranging from 6.5% to 7.5%. Principal and interest payments of \$1,866 and \$895 are due monthly over a nine month term. As of June 30, 2014, the amount outstanding was \$15,434, which is due by January 31, 2015.

Note 8. **Loans from Affiliate** - 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. Between 2010 and 2012, the Organization and Demos affiliated the two entities with a two-year agreement, while remaining separate 501(c)(3) organizations. Demos and the Organization sought to enhance their impact by collaborating on a variety of projects and working jointly to shape a progressive narrative.

At the conclusion of the two-year agreement, Demos and the Organization both agreed that it served both institutions best to establish full programmatic and financial autonomy and terminated the affiliation in June 2012. Both Demos and the Organization have functioned with full independence since then.

As of June 30, 2013, operating loans from Demos totaled \$1,098,070. The loans do not bear interest. Effective June 30, 2014, Demos forgave the obligations owed under the loans and a forgiveness of loans was recorded in the statement of activities as an extraordinary gain of \$1,098,070.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013

- Note 9. **Concentrations** - The Organization received 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.
- Note 10. **Contingencies** - The Organization terminated a telecommunications contract on June 23, 2014. Management and legal counsel are vigorously contesting an invoice for an early termination liability for approximately \$132,000.
- Note 11. **Subsequent Events** - The Organization has evaluated subsequent events through January 9, 2015, which is the date financial statements were available to be issued.
- Note 12. **Management's Strategy** – The Organization has experienced deficits in its unrestricted net assets as of June 30, 2014 and 2013. Near the end of the fiscal year ended June 30, 2014, the Organization changed its management team. Effective June 1, 2014, co-founders Robert Kuttner and Paul Starr returned to active editorial management as the new Co-Editors of the Organization, but did not assume control of the finances and operations of the Organization until July 1, 2014. Ed Connors, Advertising Director, was promoted to Director, Business Operations as of July 1, 2014. The new management team has initiated aggressive steps towards controlling spending and reducing expenses. The goal of these changes is to put into place a plan to meet fiscal year 2015 budget goals which have been significantly reduced from the prior year. Included in the budget goals are the following plans: downsizing the staff, moving to a smaller office, changing the print magazine schedule from bi-monthly to quarterly, employing an independent and local accounting and bookkeeping service, and reducing the number of outside publishing consultants.

Both the Board of Directors and the new management team remain committed to continuing to work towards increasing the Organization's unrestricted net asset balance. Management and the Board of Directors are also increasing the development activities which are anticipated to increase the unrestricted funding. Pursuant to this goal, the Organization anticipates hiring a new Manager of Development during the 2015 fiscal year.

These financial statements do not include any adjustments that might be necessary if these initiatives are unsuccessful.