

The American Prospect, Inc.
Financial Statements
June 30, 2015 and 2014



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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, 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 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 auditors consider 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, 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 of America.

Sygnus, Lencu + Co., LLP

September 16, 2015

THE AMERICAN PROSPECT, INC.

STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
ASSETS	2015	2014
CURRENT ASSETS:		
Cash and cash equivalents	\$ 60,571	\$ 5,721
Accounts receivable, net of allowance for doubtful accounts of \$3,045 and \$2,725	47,602	45,973
Employee advances	1,250	-
Contributions and grants receivable	-	427,411
Prepaid expenses	41,140	85,624
TOTAL CURRENT ASSETS	\$ 150,563	\$ 564,729
PROPERTY AND EQUIPMENT:		
Computer hardware and software	\$ 74,169	\$ 102,339
Furniture and equipment	19,670	19,670
Total property and equipment, at cost	\$ 93,839	\$ 122,009
Less, accumulated depreciation and amortization	(93,355)	(108,788)
TOTAL PROPERTY AND EQUIPMENT	\$ 484	\$ 13,221
OTHER ASSETS:		
Security deposits	\$ 4,105	\$ 4,105
TOTAL ASSETS	\$ 155,152	\$ 582,055
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 114,354	\$ 166,054
Accrued expenses	25,306	6,422
Deferred subscriptions	312,772	327,280
Financing loan obligations	11,615	15,434
TOTAL CURRENT LIABILITIES	\$ 464,047	\$ 515,190
NET ASSETS (DEFICIT):		
Unrestricted net assets (deficit)	\$ (658,895)	\$ (580,546)
Temporarily restricted net assets	350,000	647,411
TOTAL NET ASSETS (DEFICIT)	\$ (308,895)	\$ 66,865
TOTAL LIABILITIES AND NET ASSETS	\$ 155,152	\$ 582,055

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

THE AMERICAN PROSPECT, INC.

STATEMENTS OF ACTIVITIES

	FOR THE YEAR ENDED JUNE 30, 2015			FOR THE YEAR ENDED JUNE 30, 2014		
	Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
REVENUE AND SUPPORT:						
Grants	\$ 328,000	\$ 350,000	\$ 678,000	\$ 521,000	\$ 1,284,822	\$ 1,805,822
Contributions	333,961	-	333,961	684,243	-	684,243
Subscriptions	148,105	-	148,105	230,506	-	230,506
Advertising	75,992	-	75,992	201,392	-	201,392
Mailing list sales	1,556	-	1,556	8,390	-	8,390
Newsstand sales	24,954	-	24,954	11,573	-	11,573
Special event:						
Gross revenue	130,040	-	130,040	-	-	-
Direct benefits to donors	(32,054)	-	(32,054)	-	-	-
Rental income	-	-	-	74,880	-	74,880
Royalties	17,983	-	17,983	16,197	-	16,197
Other losses	5,991	-	5,991	(13,527)	-	(13,527)
Other revenue	2,863	-	2,863	-	-	-
Net assets released from restrictions	647,411	(647,411)	-	1,169,911	(1,169,911)	-
TOTAL REVENUE AND SUPPORT	<u>\$ 1,684,802</u>	<u>\$ (297,411)</u>	<u>\$ 1,387,391</u>	<u>\$ 2,904,565</u>	<u>\$ 114,911</u>	<u>\$ 3,019,476</u>
EXPENSES:						
Programs	\$ 1,425,549	\$ -	\$ 1,425,549	\$ 2,568,281	\$ -	\$ 2,568,281
Management and general	266,063	-	266,063	429,528	-	429,528
Fundraising	71,539	-	71,539	113,962	-	113,962
TOTAL EXPENSES	<u>\$ 1,763,151</u>	<u>\$ -</u>	<u>\$ 1,763,151</u>	<u>\$ 3,111,771</u>	<u>\$ -</u>	<u>\$ 3,111,771</u>
CHANGE IN NET ASSETS, BEFORE EXTRAORDINARY ITEM	<u>\$ (78,349)</u>	<u>\$ (297,411)</u>	<u>\$ (375,760)</u>	<u>\$ (207,206)</u>	<u>\$ 114,911</u>	<u>\$ (92,295)</u>
EXTRAORDINARY ITEM:						
Forgiveness of related party loans	-	-	-	1,098,070	-	1,098,070
CHANGE IN NET ASSETS	<u>\$ (78,349)</u>	<u>\$ (297,411)</u>	<u>\$ (375,760)</u>	<u>\$ 890,864</u>	<u>\$ 114,911</u>	<u>\$ 1,005,775</u>
NET ASSETS (DEFICIT):						
BEGINNING 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>
END OF YEAR	<u>\$ (658,895)</u>	<u>\$ 350,000</u>	<u>\$ (308,895)</u>	<u>\$ (580,546)</u>	<u>\$ 647,411</u>	<u>\$ 66,865</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, 2015				FOR THE YEAR ENDED JUNE 30, 2014			
	Programs	Supporting Services			Programs	Supporting Services		
		Management and General	Fundraising	Total		Management and General	Fundraising	Total
PAYROLL AND RELATED:								
Salaries	\$ 485,225	\$ 104,435	\$ 42,796	\$ 632,456	\$ 992,239	\$ 167,125	\$ 70,000	\$ 1,229,364
Employee benefits	48,395	10,416	4,268	63,079	83,333	14,036	5,879	103,248
Payroll taxes	37,157	7,998	3,277	48,432	73,845	12,437	5,210	91,492
TOTAL PAYROLL AND RELATED	\$ 570,777	\$ 122,849	\$ 50,341	\$ 743,967	\$ 1,149,417	\$ 193,598	\$ 81,089	\$ 1,424,104
MAGAZINE AND COMMUNICATION								
DIRECT COSTS:								
Advertising	\$ 16,381	\$ -	\$ -	\$ 16,381	\$ 19,972	\$ -	\$ -	\$ 19,972
Marketing and promotion	116,242	-	-	116,242	-	-	-	-
Graphic and photo design	45,098	-	-	45,098	112,230	-	-	112,230
Fulfillment	41,468	-	-	41,468	134,114	-	-	134,114
Production	118,586	-	-	118,586	-	-	-	-
Manuscript fees	79,129	-	-	79,129	277,868	-	-	277,868
Circulation services	2,250	-	-	2,250	72,410	-	-	72,410
Digital media	146,802	-	-	146,802	53,700	-	-	53,700
TOTAL MAGAZINE AND COMMUNICATION DIRECT COSTS	\$ 565,956	\$ -	\$ -	\$ 565,956	\$ 670,294	\$ -	\$ -	\$ 670,294
SUPPORTING COSTS:								
Accounting	\$ -	\$ 50,433	\$ -	\$ 50,433	\$ -	\$ 78,244	\$ -	\$ 78,244
Administrative	-	-	-	-	109,445	18,434	7,721	135,600
Bad debt	-	2,576	-	2,576	-	1,291	-	1,291
Bank fees and license fees	8,247	1,775	727	10,749	12,344	2,079	871	15,294
Conference expenses	-	-	-	-	100	-	-	100
Consultants	3,475	-	-	3,475	10,489	1,767	740	12,996
Depreciation and amortization	-	12,737	-	12,737	-	32,110	-	32,110
Development support	-	-	5,886	5,886	-	-	-	-
Dues, subscriptions and publications	929	200	82	1,211	9,899	1,668	698	12,265
Equipment rental	423	91	37	551	7,604	1,281	536	9,421
Insurance costs	30,826	6,635	2,719	40,180	24,276	4,088	1,713	30,077
Interest expense	-	660	-	660	-	2,476	-	2,476
Information technology and communications	20,761	4,469	1,831	27,061	81,758	13,771	5,768	101,297
Legal expenses	-	20,057	-	20,057	-	7,711	-	7,711
Loss on security deposit	-	-	-	-	-	35,615	-	35,615
Miscellaneous	-	3,010	-	3,010	-	-	-	-
Occupancy costs	104,520	22,496	9,218	136,234	199,024	33,521	14,041	246,586
Office move	-	16,372	-	16,372	-	-	-	-
Postage	39,600	-	-	39,600	133,867	-	-	133,867
Printing	1,183	-	-	1,183	51,519	-	-	51,519
Research	11,249	-	-	11,249	11,424	-	-	11,424
Staff expense	4,596	-	-	4,596	590	-	-	590
Supplies and small equipment	7,915	1,703	698	10,316	11,128	1,874	785	13,787
Travel expense	55,092	-	-	55,092	85,103	-	-	85,103
TOTAL SUPPORTING COSTS	\$ 288,816	\$ 143,214	\$ 21,198	\$ 453,228	\$ 748,570	\$ 235,930	\$ 32,873	\$ 1,017,373
TOTALS	\$ 1,425,549	\$ 266,063	\$ 71,539	\$ 1,763,151	\$ 2,568,281	\$ 429,528	\$ 113,962	\$ 3,111,771

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,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (375,760)	\$ 1,005,775
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,737	32,110
Loss on disposal of assets	-	13,528
Change in allowance	320	-
Forgiveness of loans from affiliate	-	(1,098,070)
(Increase) decrease in assets:		
Accounts receivable	(1,949)	25,718
Contributions and grants receivable	427,411	(42,411)
Prepaid expenses	44,484	(15,508)
Employee advances	(1,250)	35,135
(Decrease) increase in liabilities:		
Accounts payable	(51,700)	(67,656)
Accrued expenses	18,884	(1,575)
Deferred subscriptions	(14,508)	(7,783)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	\$ 58,669	\$ (120,737)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from financing loan obligations	\$ 19,263	\$ 24,157
Principal repayments on financing loan obligations	(23,082)	(8,723)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	\$ (3,819)	\$ 15,434
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 54,850	\$ (105,303)
CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR	5,721	111,024
END OF YEAR	\$ 60,571	\$ 5,721
SUPPLEMENTAL DISCLOSURE:		
Cash paid for interest	\$ 660	\$ 2,476

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

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 Organization’s financial statements 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, 2015 and 2014.

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.

Statements of Cash Flows - During the year ended June 30, 2015, the organization disposed of assets with a cost basis of \$28,170 and accumulated depreciation of \$28,170. Accounts payable as of June 30, 2014 includes \$7,543 outstanding on a telephone lease that was settled for \$1,652 during the year ended June 30, 2015.

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.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 value is depreciated over its useful life utilizing the straight-line method. The Organization's capitalization policy is to capitalize assets with a useful life greater than one year and the cost or fair value exceeds \$2,500.

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
Furniture and fixtures	7

Revenue Recognition - The Organization's revenue recognition policies are as follows:

Contributions and Grants - Contributions and grants are recorded as revenue 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. Revenue is recognized when the magazines are shipped to the subscribers. Deferred subscription revenue is shown as a liability to represent subscriber receipts to be earned incrementally as each issue of the magazine is delivered.

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. Special event revenue is recognized when the event occurs. Expenses that directly benefit the donors are recorded as an offset to revenue in the year of the event.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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

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.

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, 2015 and 2014, no unrecognized tax provision or benefit exists. The Form 990, Return of Organization Exempt from Income Tax, for the fiscal years ending June 30, 2012 - 2014, 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:

	2015	2014
Special issues	\$ --	\$ 100,000
General support and time restricted	--	327,411
Totals	\$ --	\$ 427,411

Estimated annual collections on contributions and grants receivable are as follows:

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

	2015	2014
Computer hardware and software	\$ 74,169	\$ 102,339
Furniture and equipment	19,670	19,670
Total property and equipment, at cost	\$ 93,839	\$ 122,009
Less, accumulated depreciation and amortization	(93,355)	(108,788)
Net property and equipment	\$ 484	\$ 13,221

For the years ended June 30, 2015 and 2014, depreciation and amortization expense totaled \$12,737 and \$32,110, respectively.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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 for the year ended June 30, 2014. During 2015, \$50,657 was paid to settle the early termination of the lease, and is included in occupancy costs in the statements of functional expenses.

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. Rent expense totaled \$85,577 for the year ended June 30, 2015. Future minimum annual rental payments for the year ending June 30, 2016 is \$58,670.

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

	2015	2014
Magazine special issues	\$ --	\$ 100,000
General support - time restricted	350,000	547,411
Totals	\$ 350,000	\$ 647,411

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 \$2,208 and \$1,866 are due monthly over a nine month term. As of June 30, 2015, the amount outstanding was \$11,615, which is due by February 5, 2016.

Note 8. **Line of Credit** - The Organization has a \$31,500 uncommitted, demand revolving line of credit which is secured by the Organization's bank accounts, and has a 10% annual interest rate. The line of credit does not have a specific term or duration, and can be terminated at the bank's discretion. There was no outstanding balance under the line of credit as of June 30, 2015.

Note 9. **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.

THE AMERICAN PROSPECT, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

Note 9. **Loans from Affiliate** (Continued)

As of June 30, 2013, operating loans from Demos totaled \$1,098,070. The loans did 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.

Note 10. **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 11. **Subsequent Events** - The Organization has evaluated subsequent events through September 16, 2015, which is the date financial statements were available to be issued.

Note 12. **Management's Strategy** - The Organization's management team, put in place in June 2014 amidst a large reorganization and downsizing, continues unchanged. The management team achieved its stated goals of controlling spending and reducing expenses. Overall spending was reduced from \$3.1 million in FY14 to \$1.8 million in FY15. Cost savings were achieved by the following: a reduction of staff, moving to a smaller office, changing the magazine schedule from bi-monthly to quarterly, employing local and reliable accounting and bookkeeping services, strict cost controls, and substantially reducing the number of outside contractors.

Additionally, the Organization hired a new Manager of Development who is also managing the Organization's Social Media strategy. The Organization is addressing critical needs on the digital side including investment in website improvements, upgrading email service and electronic fundraising outreach, development of a digital edition of the print magazine and the anticipated hiring of a Senior Editor.

Management and the Board of Directors are committed to developing long-term strategies and capacity building to increase fundraising and build new relationships with funders.