

**The American Prospect, Inc.**  
**Financial Statements**  
**June 30, 2016 and 2015**



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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, 2016 and 2015, 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, 2016 and 2015, 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, Lender + Co., LLP*

November 14, 2016

**THE AMERICAN PROSPECT, INC.**

**STATEMENTS OF FINANCIAL POSITION**

	JUNE 30,	
ASSETS	2016	2015
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 57,010	\$ 60,571
Accounts receivable, net of allowance for doubtful accounts of \$872 and \$3,045, respectively	26,265	47,602
Employee advances	5,450	1,250
Contributions and grants receivable	200,000	-
Prepaid expenses	24,276	41,140
<b>TOTAL CURRENT ASSETS</b>	<b>\$ 313,001</b>	<b>\$ 150,563</b>
<b>PROPERTY AND EQUIPMENT:</b>		
Computer hardware and software	\$ 74,169	\$ 74,169
Furniture and equipment	19,670	19,670
Total property and equipment, at cost	\$ 93,839	\$ 93,839
Less, accumulated depreciation and amortization	(93,839)	(93,355)
<b>TOTAL PROPERTY AND EQUIPMENT</b>	<b>\$ -</b>	<b>\$ 484</b>
<b>OTHER ASSETS:</b>		
Security deposits	\$ 4,105	\$ 4,105
<b>TOTAL ASSETS</b>	<b>\$ 317,106</b>	<b>\$ 155,152</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 83,055	\$ 114,354
Accrued expenses	46,393	25,306
Deferred subscriptions	243,726	312,772
Financing loan obligations	13,123	11,615
Line of credit	23,076	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>\$ 409,373</b>	<b>\$ 464,047</b>
<b>NET ASSETS (DEFICIT):</b>		
Unrestricted net assets (deficit)	\$ (587,267)	\$ (658,895)
Temporarily restricted net assets	495,000	350,000
<b>TOTAL NET ASSETS (DEFICIT)</b>	<b>\$ (92,267)</b>	<b>\$ (308,895)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 317,106</b>	<b>\$ 155,152</b>

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

THE AMERICAN PROSPECT, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016			FOR THE YEAR ENDED JUNE 30, 2015		
Unrestricted	Temporarily Restricted	Totals	Unrestricted	Temporarily Restricted	Totals
\$ 279,000	\$ 817,500	\$ 1,096,500	\$ 328,000	\$ 350,000	\$ 678,000
516,610	75,000	591,610	333,961	-	333,961
134,585	-	134,585	148,105	-	148,105
44,533	-	44,533	75,992	-	75,992
12,617	-	12,617	1,556	-	1,556
8,401	-	8,401	24,954	-	24,954
-	-	-	130,040	-	130,040
-	-	-	(32,054)	-	(32,054)
16,760	-	16,760	17,983	-	17,983
-	-	-	5,991	-	5,991
1,258	-	1,258	2,863	-	2,863
747,500	(747,500)	-	647,411	(647,411)	-
<u>\$ 1,761,264</u>	<u>\$ 145,000</u>	<u>\$ 1,906,264</u>	<u>\$ 1,684,802</u>	<u>\$ (297,411)</u>	<u>\$ 1,387,391</u>
\$ 1,364,240	\$ -	\$ 1,364,240	\$ 1,425,549	\$ -	\$ 1,425,549
196,329	-	196,329	266,063	-	266,063
129,067	-	129,067	71,539	-	71,539
<u>\$ 1,689,636</u>	<u>\$ -</u>	<u>\$ 1,689,636</u>	<u>\$ 1,763,151</u>	<u>\$ -</u>	<u>\$ 1,763,151</u>
\$ 71,628	\$ 145,000	\$ 216,628	\$ (78,349)	\$ (297,411)	\$ (375,760)
(658,895)	350,000	(308,895)	(580,546)	647,411	66,865
<u>\$ (587,267)</u>	<u>\$ 495,000</u>	<u>\$ (92,267)</u>	<u>\$ (658,895)</u>	<u>\$ 350,000</u>	<u>\$ (308,895)</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, 2016				FOR THE YEAR ENDED JUNE 30, 2015			
Programs	Supporting Services			Programs	Supporting Services		
	Management and General	Fundraising	Total		Management and General	Fundraising	Total
\$ 529,762	\$ 115,169	\$ 84,906	\$ 729,837	\$ 485,225	\$ 104,435	\$ 42,796	\$ 632,456
63,578	13,822	10,190	87,590	48,395	10,416	4,268	63,079
40,964	8,906	6,566	56,436	37,157	7,998	3,277	48,432
<u>\$ 634,304</u>	<u>\$ 137,897</u>	<u>\$ 101,662</u>	<u>\$ 873,863</u>	<u>\$ 570,777</u>	<u>\$ 122,849</u>	<u>\$ 50,341</u>	<u>\$ 743,967</u>
\$ 18,039	\$ -	\$ -	\$ 18,039	\$ 16,381	\$ -	\$ -	\$ 16,381
39,276	-	-	39,276	116,242	-	-	116,242
51,732	-	-	51,732	45,098	-	-	45,098
39,023	-	-	39,023	41,468	-	-	41,468
111,953	-	-	111,953	118,586	-	-	118,586
73,749	-	-	73,749	79,129	-	-	79,129
6,000	-	-	6,000	2,250	-	-	2,250
108,820	-	-	108,820	146,802	-	-	146,802
<u>\$ 448,592</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448,592</u>	<u>\$ 565,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 565,956</u>
\$ -	\$ 26,282	\$ -	\$ 26,282	\$ -	\$ 50,433	\$ -	\$ 50,433
-	-	-	-	-	2,576	-	2,576
14,849	3,228	2,380	20,457	8,247	1,775	727	10,749
2,411	-	-	2,411	-	-	-	-
7,065	101	50	7,216	3,475	-	-	3,475
454	20	10	484	-	12,737	-	12,737
-	-	10,593	10,593	-	-	5,886	5,886
985	42	21	1,048	929	200	82	1,211
94	4	2	100	423	91	37	551
25,906	1,102	551	27,559	30,826	6,635	2,719	40,180
244	10	5	259	-	660	-	660
27,767	999	591	29,357	20,761	4,469	1,831	27,061
3,709	158	79	3,946	-	20,057	-	20,057
-	1,000	-	1,000	-	3,010	-	3,010
74,237	16,139	11,898	102,274	104,520	22,496	9,218	136,234
-	6,997	-	6,997	-	16,372	-	16,372
36,493	1,449	774	38,716	39,600	-	-	39,600
6,439	268	134	6,841	1,183	-	-	1,183
5,856	-	-	5,856	11,249	-	-	11,249
2,952	126	63	3,141	4,596	-	-	4,596
11,915	507	254	12,676	7,915	1,703	698	10,316
59,968	-	-	59,968	55,092	-	-	55,092
<u>\$ 281,344</u>	<u>\$ 58,432</u>	<u>\$ 27,405</u>	<u>\$ 367,181</u>	<u>\$ 288,816</u>	<u>\$ 143,214</u>	<u>\$ 21,198</u>	<u>\$ 453,228</u>
<u>\$ 1,364,240</u>	<u>\$ 196,329</u>	<u>\$ 129,067</u>	<u>\$ 1,689,636</u>	<u>\$ 1,425,549</u>	<u>\$ 266,063</u>	<u>\$ 71,539</u>	<u>\$ 1,763,151</u>

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,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 216,628	\$ (375,760)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	484	12,737
Change in allowance for doubtful accounts	(2,173)	320
Decrease (increase) in assets:		
Accounts receivable	23,510	(1,949)
Employee advances	(4,200)	(1,250)
Contributions and grants receivable	(200,000)	427,411
Prepaid expenses	16,864	44,484
Increase (decrease) in liabilities:		
Accounts payable	(31,299)	(51,700)
Accrued expenses	21,087	18,884
Deferred subscriptions	(69,046)	(14,508)
<b>NET CASH (USED IN) PROVIDED BY     OPERATING ACTIVITIES</b>	<u>\$ (28,145)</u>	<u>\$ 58,669</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from financing loan obligations	\$ 19,643	\$ 19,263
Principal repayments on financing loan obligations	(18,135)	(23,082)
Proceeds from line of credit	31,500	-
Principal repayments on line of credit	(8,424)	-
<b>NET CASH PROVIDED BY (USED IN)     FINANCING ACTIVITIES</b>	<u>\$ 24,584</u>	<u>\$ (3,819)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>\$ (3,561)</u>	<u>\$ 54,850</u>
<b>CASH AND CASH EQUIVALENTS: BEGINNING OF YEAR</b>	<u>60,571</u>	<u>5,721</u>
<b>END OF YEAR</b>	<u>\$ 57,010</u>	<u>\$ 60,571</u>
<b>SUPPLEMENTAL DISCLOSURE:</b>		
Cash paid for interest	<u>\$ 259</u>	<u>\$ 660</u>
Disposal of fully depreciated property and equipment	<u>\$ -</u>	<u>\$ 28,170</u>

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

**THE AMERICAN PROSPECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

Note 1. **Organization** - The American Prospect, Inc. (the Organization) publishes “The American Prospect”, a magazine containing 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 that informs the public on liberal philosophy, politics, and public life. The Organization is headquartered in Washington, DC.

The Organization’s primary revenue sources are 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 operations while temporarily restricted net assets represent unexpended grants subject to restrictions for a specific purpose or with the passage of time. 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. There were no permanently restricted net assets as of June 30, 2016 and 2015.

**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 and, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue 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 months or less to be cash equivalents.

**Accounts Receivable** - Accounts receivable primarily consists of amounts due to the Organization from third parties for newsstand sales and subscriptions. Accounts receivable are carried at the original invoice amount less an estimate for doubtful accounts receivable 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 in revenue when received.

**THE AMERICAN PROSPECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

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

**Contributions and Grants Receivable** - Contributions and grants receivable represent unconditional promises to give that have not yet been collected. Contributions and grants expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows.

**Property and Equipment** - Property and equipment are recorded at cost at the date of purchase or fair value at the date of contribution. Assets with a useful life greater than one year and a cost or fair value exceeding \$2,500 are capitalized. Each asset's cost or fair value is depreciated using the straight-line method over the following useful lives:

Assets	Life in Years
Computer hardware and software	3
Furniture and equipment	7

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

**Contributions and Grants** - Unconditional contributions and grants are recorded as revenue at the earlier of when funds are received or agreements are signed. Conditional promises to give are not recorded in revenue until the conditions have been met. Contributions and grants are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions.

**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.

**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](http://www.Prospect.org), through advertising emails and e-newsletter advertisements. Advertising revenue is recognized when the magazine is available for distribution.

**Other Revenue** - Revenue from newsstand sales is recorded when the sales transactions occur. Mailing list sales and royalties revenue from reprints of articles are recorded as revenue when the items are delivered. 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, 2016 AND 2015**

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

**Functional Allocation of Expenses** - Salaries are allocated between program expenses, management and general, and fundraising based on time spent on each functional area. The related employee benefit expenses are allocated based on the percentage of specific salaries. The 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 the Financial Accounting Standards Board's Accounting Standards Codification topic *Accounting for Uncertainty in Income Taxes*. For the years ended June 30, 2016 and 2015, no unrecognized tax provision or benefit exists. The Form 990, Return of Organization Exempt from Income Tax, for the fiscal years ending June 30, 2013 - 2015, is subject to review and examination by the Internal Revenue Service (IRS), although no request has been made.

**Future Accounting Pronouncements** - In February 2016, the FASB issued a new accounting pronouncement for leases. This guidance significantly changes the accounting for a lessee. Under previous guidance, the lessee did not have to record an operating lease on the statements of financial position. Under the new guidance, a lessee must record both a liability for the lease payments and an asset for the right to use the leased property during the lease term. The new accounting pronouncement also adds comprehensive qualitative and quantitative disclosures for lease arrangements. The disclosure requirements include information about management's significant judgments in its accounting for a leasing arrangement. Adoption of this accounting standard is required for the year ended June 30, 2021, although early adoption is permitted, and is expected to result in adding the Organizations' assets and liabilities for the office space lease to the statements of financial position and changing the lease disclosures.

Note 3. **Contributions and Grants Receivable** - At June 30, 2016, contributions and grants receivable consists of \$200,000 pledged for operating support for the year ended June 30, 2017, which is expected to be collected in the next fiscal year.

**THE AMERICAN PROSPECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016 AND 2015**

Note 4. **Commitments** - On April 1, 2016, the Organization signed a five-year sublease agreement for office space at 1225 Eye Street NW, Washington, DC. Base monthly rent is \$9,551 with an annual 2.5% increase. The Organization is also responsible for its pro rata share of tenant pass-through operating expenses. Rent expense for the years ended June 30, 2016 and 2015 totaled \$102,274 and \$85,577, respectively. In addition, a payment of \$50,657 was made during the year ended June 30, 2015 to settle the early termination of a prior lease.

Future minimum rental commitments under the non-cancelable office leases are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2017	\$ 115,324
2018	118,207
2019	121,163
2020	124,192
2021	94,879
Total	<u>\$ 573,765</u>

Note 5. **Temporarily Restricted Net Assets** - Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2016</u>	<u>2015</u>
Magazine special issues	\$ 295,000	\$ --
General support - time restricted	<u>200,000</u>	<u>350,000</u>
Totals	<u>\$ 495,000</u>	<u>\$ 350,000</u>

Note 6. **Financing Loan Obligations** - The Organization finances directors and officers, and business insurance premiums with two separate financing agreements. The interest rates range from 6.5% to 7.75%. Total principal and interest payments of \$2,253 and \$2,208 are due monthly over a nine-month term. As of June 30, 2016 and 2015, the amount outstanding was \$13,123 and \$11,615, respectively. All amounts are due within the next fiscal year.

Note 7. **Line of Credit** - During the year ended June 30, 2016, the Organization obtained a \$31,500 uncommitted, demand revolving line of credit which is secured by the Organization's bank accounts, and has a 10.25% annual interest rate. The line of credit does not have a specific term or duration, and can be terminated at the bank's discretion. At June 30, 2016, the outstanding balance on the line of credit was 23,076.

**THE AMERICAN PROSPECT, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2016 AND 2015**

- Note 8. **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 9. **Subsequent Events** - The Organization has evaluated subsequent events through November 14, 2016, which is the date financial statements were available to be issued.
- Note 10. **Management's Strategy** - The Organization continued to maintain a tightly controlled budget while adding new staff in key areas. Income increased from \$1.4 million in fiscal year 2015 to \$1.9 million in fiscal year 2016. Overall spending was reduced from \$1.8 million in fiscal year 2015 to \$1.7 million in fiscal year 2016. Cost savings were achieved by continuing strict cost controls instituted in the previous years, which included reduced magazine production expenses for marketing and promotion, and digital media.

The Organization added two senior editorial positions to provide in-office daily leadership for both website and magazine article production. Critical needs in website design were addressed. Editorial work-flow has been improved, which also has increased the amount of daily website content and website traffic. E-newsletters were redesigned and have been sent out on a daily basis under new theme titles such as Labor Prospect and Democracy Prospect. A new email service provider was also contracted. All of these changes, taken together, have produced positive results.

In June 2016, the Organization hired a publisher that brings more than 20 years of experience in major fundraising. She will be leading the efforts to expand fundraising outreach to new sources including foundations and individuals, and she will team up with business staff to increase earned income revenues. 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.