# HARVARD MAGAZINE, INC.
## FINANCIAL STATEMENTS
## JUNE 30, 2012

**Contents**

BACALL & CONNIFF, P.C. *Certified Public Accountants*

111 STATE STREET
BOSTON, MASSACHUSETTS 02109

TELEPHONE (617) 367-3250
FAX (617) 367-2511
www.bacallconniff.com

**Independent Auditors' Report**

To the Board of Directors of
**Harvard Magazine, Inc.**
(a not-for-profit organization)

We have audited the accompanying statements of financial position of **Harvard Magazine, Inc.** (an affiliate of the President and Fellows of Harvard College) as of June 30, 2012 and 2011 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Magazine's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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.

As disclosed in Note 4, the Magazine obtains financial and other administrative support from Harvard University. The financial statements are prepared under the assumption that Harvard's present intention and ability to continue such support will be ongoing.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Harvard Magazine, Inc.** as of June 30, 2012 and 2011 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Bacall + Conniff, P.C.

August 2, 2012

# Harvard Magazine, Inc.
## Statements of Financial Position
## June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash and cash equivalents | 5,255 | 1,386 |
| Accounts receivable (net of allowance for doubtful accounts of $6,683 for 2012 and 2011) | 79,586 | 80,548 |
| Paper inventory | 350,267 | 315,944 |
| Prepaid postage | 65,704 | 70,851 |
| Due from Harvard University | 1,197,036 | 761,495 |
| Other prepaid items | 95,082 | 18,947 |
| Total Current Assets | 1,792,930 | 1,249,171 |
| **Investments** | 193,569 | 201,079 |
| **Fixed Assets** | | |
| Equipment (net of accumulated depreciation of $374,136 and $365,797) | 6,671 | 13,426 |
| **Total Assets** | 1,993,170 | 1,463,676 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable | 42,468 | 36,831 |
| Deferred subscription income | 39,102 | 32,918 |
| Deferred advertising income | 54,895 | 65,178 |
| Total Current Liabilities | 136,465 | 134,927 |
| **Net Assets** | | |
| Unrestricted Net Assets | | |
| Operations | 624,757 | 612,661 |
| Reserve for contingencies | 1,025,229 | 489,764 |
| Unrestricted gifts | 73,773 | 77,542 |
| Editor's discretionary fund | 119,796 | 135,632 |
| Total Unrestricted Net Assets | 1,843,555 | 1,315,599 |
| Temporarily Restricted Net Assets | 7,500 | 7,500 |
| Permanently Restricted Net Assets | 5,650 | 5,650 |
| Total Net Assets | 1,856,705 | 1,328,749 |
| **Total Liabilities and Net Assets** | 1,993,170 | 1,463,676 |

See accountants' audit report and accompanying notes.

# Harvard Magazine, Inc.

## Statements of Activities
## For the Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Changes in Unrestricted Net Assets** | | |
| Revenues and Gains: | | |
| Harvard University contribution (Note 4) | 1,559,455 | 1,499,477 |
| Advertising | 1,548,462 | 1,284,684 |
| Contributions | 925,674 | 961,018 |
| University copies | 160,165 | 154,005 |
| Harvard University rent contribution | 61,839 | 63,947 |
| Subscriptions | 43,852 | 40,644 |
| Other income | 16,220 | 30,692 |
| Unrestricted gifts | - | 7,000 |
| Net realized and unrealized gains/(losses) from securities | (8,447) | 40,971 |
| Investment income | 938 | 600 |
| Total Unrestricted Revenues and Gains | 4,308,158 | 4,083,038 |
| Expenses: | | |
| Production | 570,681 | 500,005 |
| Editorial | 1,057,931 | 917,016 |
| Distribution | 487,060 | 479,331 |
| Fundraising | 490,618 | 470,802 |
| Circulation | 10,071 | 16,712 |
| Sales | 345,507 | 317,829 |
| Marketing/New business | 108,316 | 84,968 |
| General Administration | 426,116 | 369,099 |
| New Media/Information technology | 222,063 | 189,615 |
| Incremental University rent expense | 61,839 | 63,947 |
| Total Unrestricted Expenses | 3,780,202 | 3,409,324 |
| **Change in Unrestricted Net Assets** | 527,956 | 673,714 |
| **Change in Temporarily Restricted Net Assets** | | |
| None | | |
| **Change in Permanently Restricted Net Assets** | | |
| None | | |
| **Change in Net Assets** | 527,956 | 673,714 |
| **Net Assets, Beginning** | 1,328,749 | 655,035 |
| **Net Assets, Ending** | 1,856,705 | 1,328,749 |

See accountants' audit report and accompanying notes.

# Harvard Magazine, Inc.
## Statements of Cash Flows
## For the Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|---|---|---|
| **Cash Provided by/(Applied to) Operating Activities** | | |
| Change in Net Assets | 527,956 | 673,714 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 8,338 | 10,060 |
| Realized and unrealized (gains)/(losses) from securities | 8,447 | (40,971) |
| Subtotal | 544,741 | 642,803 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 964 | 118,828 |
| Prepaid postage | 5,147 | (2,629) |
| Other prepaid items | (76,136) | 15,335 |
| Paper inventory | (34,323) | (184,255) |
| Accounts payable | 5,638 | (58,442) |
| Deferred subscription income | 6,184 | 3,202 |
| Deferred advertising income | (10,283) | (3,478) |
| Due from Harvard University | (435,541) | (520,915) |
| Net cash provided by operating activities | 6,391 | 10,449 |
| **Cash Provided by/(Applied to) Investing Activities** | | |
| Acquisition of fixed assets | (1,584) | (11,368) |
| Purchases of investments | (938) | (7,600) |
| Net cash provided by (applied to) investing activities | (2,522) | (18,968) |
| **Increase/ (Decrease) in Cash** | 3,869 | (8,519) |
| **Cash at Beginning of Year** | 1,386 | 9,905 |
| **Cash at End of Year** | 5,255 | 1,386 |

See accountants' audit report and accompanying notes.

## Note 1 - Summary of Significant Accounting Policies

### Nature of Business

Harvard Magazine, Inc. (the "Magazine") is the alumni magazine for Harvard University (the "University"). Alumni of the University receive complimentary copies of each of the six issues published annually by the Magazine. The Magazine also sells display and classified advertising and receives voluntary contributions from the alumni. Subscriptions are also accepted from the general public.

### Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis and in accordance with the reporting principles of not-for-profit accounting.

The Magazine has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, **"Contributions Made and Contributions Received"**, and No. 117, **"Financial Statements of Not-for-Profit Organizations."** SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues within the appropriate net asset category. As of June 30, 2012 and 2011 , there were no outstanding pledges. SFAS No. 117 requires that the Magazine report its activities and net assets according to three classes: unrestricted, temporarily restricted and permanently restricted. The categories unrestricted, temporarily restricted and permanently restricted net assets are defined as follows:

**Unrestricted net assets** include all resources that are not subject to donor-imposed restrictions of a more specific nature than those that only obligate the Magazine to utilize funds in furtherance of its mission.

**Temporarily restricted net assets** carry specific, donor-imposed restrictions on the expenditure or other use of contributed funds. The restrictions are primarily for awards of literary prizes. Temporary restrictions may expire either because of the passage of time or because certain actions are taken by the Magazine that fulfill the restrictions.

**Permanently restricted net assets** are those that are subject to donor-imposed restrictions that will never lapse; thus requiring that the funds be retained permanently.

Note 1 - **Summary of Significant Accounting Policies (Continued)**

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions or unless the expense is incurred in the year in which the restricted revenue is earned. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or law. Expirations of temporary restrictions on net assets (donor-imposed stipulated purpose has been met and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash and money market accounts. The Magazine considers highly liquid marketable securities purchased with a maturity of three months or less to be cash equivalents.

**Accounts Receivable**

Accounts receivable consists of balances due from customers for advertising as well as Ivy League Magazine Network. The total on the Statement of Financial Position is net of an allowance for doubtful accounts of approximately 10% and 9% of the outstanding balances as of June 30, 2012 and 2011, respectively.

**Inventory**

Inventory consists of the paper used in production of the Magazine and is stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

**Revenue Recognition**

Subscription and advertising revenues are recognized in the first month of the date of issue. Contribution revenue is recognized when received.

**Expense Recognition**

Expenses attributable to specific issues of the Magazine are recognized in the period in which income related to those issues is recognized.

Note 1 - **Summary of Significant Accounting Policies (Continued)**

**Fixed Assets**

Fixed assets are stated at cost. Gifts of fixed assets are recorded at fair market value at the date of the gift.

Depreciation expense related to equipment is computed on the straight-line basis over the estimated useful life. Depreciation expense was $8,338 and $10,060 for the years ended June 30, 2012 and 2011, respectively.

Expenditures that significantly increased value or extend useful lives are capitalized while maintenance and repairs are expensed as incurred. The Magazine's policy is to capitalize only those items that exceed fifteen hundred dollars. The cost and related accumulated depreciation of assets replaced, retired or disposed of are eliminated from property accounts and any gain or loss is reflected in income.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts and disclosures. Actual results could differ from those estimates.

The Magazine maintains reserves for potential credit risk as determined by management. The Magazine generally requires no collateral. Accounts receivable are from customers that are geographically and industry dispersed. No customer accounted for more than 10% of adverting sales for the years ended June 30, 2012 or 2011.

**Vacation Accrual**

The Magazine follows the vacation policy of the University. Unused vacation days can be accrued up to a maximum of thirty days (up to forty days for employees with over five years of service). The payment of accrued vacation is now the responsibility of the University; therefore, there is no liability shown on the Statements of Financial Position.

Note 2 - **Income Taxes**

The Magazine is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision has been made for federal income taxes.

Note 3 - **Investments**

The Magazine has adopted the provision of SFAS No. 124, **"Accounting for Certain Investments Held by Not-for-Profit Organizations,"** which requires investments to be carried at market.

Investments consist of mutual funds that are considered level one assets (quoted prices in active markets for identical assets) under FASB ASC 820, **"Fair Value Measurements and Disclosures"**. The costs (including reinvested dividends) were $218,317 and $219,560 as of June 30, 2012 and 2011, respectively.

Note 4 - **Relationship with Harvard University**

The Magazine obtains financial and administrative support from Harvard University. The President of the University, the Dean of its Faculty of Arts and Sciences, and the President of its Alumni Association each nominate two of the Magazine's nine directors. A five-year agreement with the University commenced July 1, 2003 and the agreement has been extended for another five years . The Magazine received a two percent annual increase for the first two years and a four percent annual increase thereafter. These financial statements are prepared under the assumption that the University's present intention and ability to continue such support will be ongoing. The University receives cash receipts and makes all cash payments for the Magazine. The net excess of cash payments over cash receipts, net of the funding from the University, is included on the balance sheet as due from/to Harvard University. The amount due from/to Harvard University is non-interest bearing. It is not practical to estimate the fair value of the contributed services including bookkeeping, payroll, legal and human resource services provided by the University. The Magazine is allowed to retain any excess funds in a reserve account; however, the reserve cannot exceed $580,000. The purpose of the reserve is to cover the direct expenses, excluding payroll, for three issues of the magazine. The Magazine has proposed an increase in the reserve to $1.2 million to cover labor costs for three issues as well.

The Magazine rents its office facility from Harvard Real Estate, Inc., a wholly owned subsidiary of the University. The University has charged the Magazine market rent since July 1, 1999. The increase in rental costs is added to the current contribution received from the University, therefore the increase does not affect the net change in the net assets.

Note 5 - **Subsequent Events**

The Magazine has evaluated subsequent events through August 2, 2012, the date that the financial statements were available to be issued.