HARVARD MAGAZINE, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018

Contents

BACALL & CONNIFF, P.C.

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Independent Auditors' Report

To the Board of Directors of
Harvard Magazine, Inc.
(a nonprofit organization)

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Harvard Magazine, Inc.** as of June 30, 2018 and 2017 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.

What we have Audited

We have audited the accompanying financial statements of **Harvard Magazine, Inc.**, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Independent Auditors' Report (continued)

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditor's 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 financial statement presentation.

BacallConniff Inc.

August 30, 2018

Harvard Magazine, Inc.
Statements of Financial Position
June 30, 2018 and 2017

Assets

	2018	2017
Current Assets		
Cash	343	143
Accounts receivable (net of allowance for doubtful accounts of $20,829 for 2018 and $9,369 for 2017)	57,913	101,415
Paper inventory	172,075	120,808
Prepaid postage	72,295	69,763
Due from Harvard University	2,270,747	2,707,322
Other prepaid items	106,731	93,186
Total Current Assets	**2,680,104**	**3,092,637**
Investments	379,729	339,103
Fixed Assets		
Equipment (net of accumulated depreciation of $395,405 and $391,707)	1,518	5,216
Total Assets	**3,061,351**	**3,436,956**

Liabilities and Net Assets

	2018	2017
Current Liabilities		
Accounts payable	20,997	20,547
Deferred subscription income	23,794	28,901
Deferred advertising income	64,727	90,989
Total Current Liabilities	**109,518**	**140,437**
Net Assets		
Unrestricted Net Assets:		
Operations	624,761	624,761
Reserve for contingencies	1,934,194	2,319,505
Unrestricted gifts	111,147	106,223
Editor's discretionary fund	268,581	232,880
Total Unrestricted Net Assets	**2,938,683**	**3,283,369**
Temporarily Restricted Net Assets	**7,500**	**7,500**
Permanently Restricted Net Assets	**5,650**	**5,650**
Total Net Assets	**2,951,833**	**3,296,519**
Total Liabilities and Net Assets	**3,061,351**	**3,436,956**

See independent auditors' report and accompanying notes.

Harvard Magazine, Inc.
Statements of Activities
For the Years Ended June 30, 2018 and 2017

	2018	2017
Changes in Unrestricted Net Assets		
Revenues and Gains:		
Harvard University contribution (Note 4)	1,339,000	1,300,000
Advertising	1,236,160	1,378,452
Contributions	822,827	908,147
University copies	202,660	194,865
Subscriptions	32,891	40,504
Other income	59,644	32,579
Net realized and unrealized gains from securities	36,766	54,483
Investment income (net of fees)	3,860	2,590
Total Unrestricted Revenues and Gains	**3,733,808**	**3,911,620**
Expenses:		
Production	528,454	526,314
Editorial	1,281,522	1,198,284
Distribution	562,638	553,569
Fundraising	424,311	416,730
Circulation	9,652	9,239
Sales	377,751	366,778
Marketing/New business	101,532	98,121
General Administration	552,136	541,693
New Media/Information technology	240,498	184,047
Total Expenses	**4,078,494**	**3,894,775**
Change in Unrestricted Net Assets	**(344,686)**	**16,845**
Change in Temporarily Restricted Net Assets		
None		
Change in Permanently Restricted Net Assets		
None		
Change in Net Assets	(344,686)	**16,845**
Net Assets, Beginning	3,296,519	3,279,674
Net Assets, Ending	**2,951,833**	**3,296,519**

See independent auditors' report and accompanying notes.

Harvard Magazine, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
Cash Provided by/(Applied to) Operating Activities		
Change in Net Assets	(344,686)	16,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (Note 1)	3,698	4,852
Net realized and unrealized (gains) from securities	(36,766)	(54,483)
Adjusted income to net cash	(377,754)	(32,786)
Changes in operating assets and liabilities:		
Accounts receivable	43,502	(28,380)
Prepaid postage	(2,532)	5,212
Other prepaid items	(13,545)	2,988
Paper inventory	(51,267)	(7,859)
Accounts payable	450	(50,894)
Deferred subscription income	(5,107)	(7,800)
Deferred advertising income	(26,262)	16,156
Due from Harvard University	436,575	104,897
Net Cash Provided by Operating Activities	**4,060**	**1,534**
Cash (Applied to) Investing Activities		
Purchases of investments	(3,860)	(2,587)
Net Cash (Applied to) Investing Activities	**(3,860)**	**(2,587)**
Increase/(Decrease) in Cash	**200**	**(1,053)**
Cash at Beginning of Year	143	1,196
Cash at End of Year	**343**	**143**

See independent auditors' report and accompanying notes.

Note 1 - Summary of Significant Accounting Policies

Nature of Activities

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.

Income Taxes

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

Basis of Accounting

The Magazine prepares its financial statements on the accrual basis of accounting.

Financial Statement Presentation

The Magazine prepares its financial statements in accordance with Financial Accounting Standards Board of Accounting Standards Codification (FASB ASC 958). Under ASC 958, Not-for-Profit Entities, the Magazine is required to report 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.

Estimates

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

Cash

Cash consists of cash on hand and in banks.

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 31% and 11% of the outstanding balances as of June 30, 2018 and 2017, respectively. These reserves for potential credit risk are determined by management. One customer accounted for $22,920 of outstanding receivables that management believes may be uncollectible. One-half has been recorded as a bad debt during 2018 and $2,500 was received subsequent to year end. 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 advertising sales for the years ended June 30, 2018 or 2017.

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.

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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 - 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 $3,698 and $4,852 for the years ended June 30, 2018 and 2017, respectively.

Expenditures that significantly increase 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.

Note 3 - Investments

Investments are measured at fair value in accordance with FASB ASC 820, Fair Measurements and Disclosures. ASC 820 establishes a hierarchy to be used in determining the fair value of an asset to be sold or a liability to be transferred. The three levels of hierarchy are as follows:

Level 1 - Quoted prices that are available in active markets for identical assets or liabilities.

Level 2 - Pricing inputs other than quoted prices in active markets, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Note 3 - **Investments (continued)**

The investments held at June 30, 2018 consist of mutual funds which are considered level one assets (quoted prices in active markets for identical assets).

Under FASB ASC 320, Investments - Debt and Equity Securities, the Magazine is required to report investments at fair value on the statements of financial position and report realized and unrealized gains and losses in the statements of activities. Investment income, net realized gains/(losses) and net unrealized gains/(losses) are reflected in the unrestricted net assets. At June 30, 2018 net realized gains of $69,708 and net unrealized losses of $32,942 were reported. At June 30, 2017 net realized gains of $11,640 and net unrealized gains of $42,843 were reported.

	2018		2017	
	Cost	**Market**	**Cost**	**Market**
Mutual funds	346,459	379,729	272,891	339,103

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 three year agreement with the University was agreed upon for 2014 - 2016 that resulted in a reduction of approximately ten percent from the prior year with annual increases of two percent for 2015 and 2016. A new three year agreement has been agreed upon for 2017 - 2019 that represents a reduction of approximately seventeen percent for 2017 with annual increases of three percent for 2018 and 2019. 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 and 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 Harvard University. The amount Due from 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, the purpose of which is to cover the direct expenses for three issues of the magazine.

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.

Note 5 - **Concentrations of Credit Risk**

FASB ASC 825, Financial Instruments identifies deposits in excess of insured limits as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The Federal Deposit Insurance Corporation (FDIC) provides coverage up to $250,000. There were no uninsured balances as of June 30, 2018.

Note 6 - **Subsequent Events**

The Magazine has evaluated subsequent events through August 30, 2018, the date that the financial statements were available to be issued.