

ICIVICS, INC.

FINANCIAL STATEMENTS
JUNE 30, 2010

KOSITZKA, WICKS & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS



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KOSITZKA, WICKS & COMPANY
Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
iCivics, Inc.
Washington, DC

We have audited the statement of financial position of **iCivics, Inc.** (a non-profit corporation) as of June 30, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of **iCivics, Inc.'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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **iCivics, Inc.** as of June 30, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
October 7, 2010

iCivics, Inc.

Statement of Financial Position June 30, 2010

Assets

Current assets

Cash	\$	352,634
Prepaid expenses		<u>2,542</u>
		355,176

Intangible assets

Website, net of accumulated amortization		122,306
Domain name		<u>26,000</u>
		148,306

Total assets **\$ 503,482**

Liabilities and net assets

Current liabilities

Accounts payable	\$	88,065
Payroll liabilities		<u>9,431</u>
Total liabilities		97,496

Net assets

Unrestricted		391,875
Temporarily restricted		<u>14,111</u>
Total net assets		<u>405,986</u>

Total liabilities and net assets **\$ 503,482**

The accompanying independent auditor's report and notes are an integral part of the financial statements.

iCivics, Inc.

Statement of Activities for the year ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions	\$ 817,314	\$ 50,000	\$ 867,314
In-kind contributions	57,125	-	57,125
Net assets released from restrictions	35,889	(35,889)	-
Total support	<u>910,328</u>	<u>14,111</u>	<u>924,439</u>
Expenses			
Program services	433,417	-	433,417
Management and general	74,776	-	74,776
Fundraising	10,269	-	10,269
Total expenses	<u>518,462</u>	<u>-</u>	<u>518,462</u>
Change in net assets	391,866	14,111	405,977
Net assets, beginning of year	<u>9</u>	<u>-</u>	<u>9</u>
Net assets, end of year	<u>\$ 391,875</u>	<u>\$ 14,111</u>	<u>\$ 405,986</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

iCivics, Inc.

Statement of Functional Expenses for the year ended June 30, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 109,755	\$ 18,973	\$ 7,702	\$ 136,430
Payroll taxes	9,637	1,657	666	11,960
Employee benefits	9,359	1,618	657	11,634
Accounting fees	-	8,900	-	8,900
Bank and credit card fees	2	153	-	155
Consultants	27,249	-	-	27,249
Dues and registrations	2,436	-	-	2,436
Equipment rental	2,977	514	209	3,700
Game development	80,000	-	-	80,000
Honorarium	2,000	-	-	2,000
Insurance	-	1,207	-	1,207
Licenses and fees	140	-	39	179
Marketing and promotion	10,744	-	-	10,744
Meals and entertainment	4,896	-	-	4,896
Occupancy	9,922	1,715	696	12,333
Office supplies and expenses	1,348	1,759	-	3,107
Postage and delivery	536	60	-	596
Printing and reproduction	2,729	-	-	2,729
Professional services	4,000	38,220	-	42,220
Recruiting	120	-	-	120
Stipends	3,400	-	-	3,400
Travel and lodging	18,790	-	-	18,790
Video production	1,200	-	-	1,200
Website amortization	3,494	-	-	3,494
Web development and services	128,683	-	300	128,983
	<u>\$ 433,417</u>	<u>\$ 74,776</u>	<u>\$ 10,269</u>	<u>\$ 518,462</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

iCivics, Inc.

Statement of Cash Flows for the year ended June 30, 2010

Cash flows from operating activities

Change in net assets	\$ 405,977
Adjustments to reconcile change in net assets to net cash provided by operating activities-	
Increase in operating assets	
Prepaid expenses	(2,542)
Decrease in operating liabilities	
Accounts payable	88,065
Payroll liabilities	9,431
Net cash provided by operating activities	<u>500,931</u>

Cash flows from investing activities

Expenditures for website	(122,306)
Purchase of domain name	<u>(26,000)</u>
Net cash used by investing activities	<u>(148,306)</u>

Net increase in cash and cash equivalents	352,625
Cash and cash equivalents, beginning of year	<u>9</u>
Cash and cash equivalents, end of year	<u><u>\$ 352,634</u></u>

Supplemental disclosure of cash flow information

Cash paid for interest	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>

The accompanying independent auditor's report and notes are an integral part of the financial statements.

iCivics, Inc.

Notes to Financial Statements June 30, 2010

1. Organization

iCivics, Inc. (the Organization), a non-profit corporation, was established in 2009. The Organization was founded by Justice Sandra Day O'Connor in partnership with Georgetown Law and Arizona State University. The Organization is dedicated to reinvigorating civics learning through interactive resources about different aspects of law, public policy, and government.

The Organization's interactive activities, such as games, approach civics content through problems that affect students' lives. Games are an excellent way to teach civics because they convey the stories of civic action and simulate the systems through which citizens engage. Through these activities, students can learn the workings of government, the Constitution, and the rights and responsibilities of citizens in a contextual way that will lead to retention and application of knowledge.

For teachers, iCivics.org offers lesson plans, worksheets, and other practical classroom tools to increase civic knowledge, literacy, and critical thinking.

iCivics, Inc. did not fully separate from Georgetown Law until October 2010. Salaries and other administrative expenses were paid by Georgetown Law until that point. As a result, the salaries and other administrative expenses in the financial statements reflect approximately nine months of activity.

The Organization is supported primarily through donor and in-kind contributions.

2. Significant accounting policies

Basis of accounting

The Organization prepares its financial statements on the accrual basis of accounting. In accordance with this method of accounting, revenue is recognized in the period in which it is earned and expenses are recognized in the period in which they are incurred.

Contributions

Contributions with donor-imposed restrictions are recognized as temporarily or permanently restricted support that increases those net asset classes. When temporary restrictions are met, the contributions are transferred to unrestricted support. Contributions with no donor-imposed restrictions and donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. As of June 30, 2010, the Organization had no permanently restricted net assets.

Cash

Cash consists of funds held in a checking account.

At year-end and throughout the year, the Organization's cash balances may exceed federally insured limits. Cash is maintained at a high-quality financial institution. The Organization has not experienced any losses on its cash and management does not believe this results in any significant credit risk. As of June 30, 2010, \$184,049 of cash exceeded federally insurance limits.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2010

2. Significant accounting policies (continued)

Promises to give

Unconditional promises to give are recorded when notification of the promise is received. Conditional promises to give are recorded when the conditions are substantially met.

Website

In accordance with generally accepted accounting principles, costs incurred to plan the website were expensed as incurred while costs incurred to develop the infrastructure and graphics of the website were capitalized. All costs to operate the site are expensed as incurred. The capitalized costs will be amortized over 36 months.

Domain name

During the year ended June 30, 2010, the Organization purchased rights to iCivics.com, iCivics.net and iCivics.org for \$26,000. As the estimated useful life of the domain name is indefinite, the asset will not be amortized but will be tested for impairment at least annually. For the year ended June 30, 2010, the Organization has determined that there has been no impairment.

Game development

Costs to develop educational games and content are expensed as incurred and classified as a program service expense.

In-kind contributions

Donated services are reflected in the financial statements if they meet the requirements as defined by U.S. generally accepted accounting principles. Donated services and other in-kind contributions are recorded at fair market value. Donations in-kind are detailed at Note 4 of these financial statements.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Other financial assets and liabilities

Financial assets with carrying values approximating fair value include cash and prepaid expenses. Financial liabilities with carrying values approximating fair value include accounts payable and payroll liabilities. The carrying value of these financial assets and liabilities approximates fair value due to their short maturities and any associated interest rates approximate current market rates.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2010

2. Significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events

The Organization assessed events occurring subsequent to June 30, 2010 through October 7, 2010, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to or disclosure in the financial statements.

Recent and upcoming accounting pronouncements

FASB Accounting Standards Codification

In June 2009, the FASB approved the “FASB Accounting Standards Codification,” (the Codification), as the single source of authoritative US GAAP for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which launched July 1, 2009, changes the referencing and Organization of accounting guidance and is effective for interim and annual periods ending after September 15, 2009. As the Codification did not change or alter existing US GAAP, the Codification it did not have any impact on the Organization’s financial condition or results of operations. As of September 15, 2009, the Organization’s financial statements no longer refer to specific US GAAP statements.

Accounting for uncertainty in income taxes

In June 2006, FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109.” The provisions of FASB Interpretation No. 48 are now contained in FASB ASC 740-10. The Organization adopted the provisions of FASB ASC 740-10 as of July 1, 2009. See note 8 for additional information.

3. Website

A summary of information related to website amortization as of June 30, 2010 is a follows:

<u>Capitalized Cost</u>	<u>Beginning accumulated amortization</u>	<u>Amorization expense</u>	<u>Ending accumulated amortization</u>
<u>\$ 125,800</u>	<u>\$ -</u>	<u>\$ 3,494</u>	<u>\$ 3,494</u>

See independent auditor’s report.

iCivics, Inc.

Notes to Financial Statements June 30, 2010

4. In-kind contributions

In-kind contributions for the year ended June 30, 2010 consisted of the following:

Legal services	\$	38,220
Advertising		2,598
Registration fees		274
Use of facilities and equipment		16,033
	\$	<u>57,125</u>

The Organization received 109.2 hours of in-kind legal services valued at \$350 per hour. The donated services are reflected in the financial statements as they require specialized skills, were provided by individuals possessing those skills, and would have needed to be purchased if not donated. The donated services supported the management and general function of the Organization.

The Organization receives rent-free use of office space and equipment from Georgetown Law. The donation is recorded at fair market value based on the average rate per square foot in the area plus the fair market value of the equipment rental.

Additional volunteers donate time to the Organization's program services. These donated services are not reflected in the financial statements since the services do not require specialized skills as defined by U.S. generally accepted accounting principles. Research assistants donated 398 hours, valued at \$6,638. Additionally, the Organization has approximately 88 volunteer coordinators in 47 states which assist in making sure the games are reflective of state curriculum.

5. Temporarily restricted net assets

Net assets are temporarily restricted for specific purposes. Temporarily restricted net assets as of June 30, 2010 were as follows:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Curriculum development	\$ -	\$ 50,000	\$ (35,889)	\$ 14,111
	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ (35,889)</u>	<u>\$ 14,111</u>

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2010

6. Conditional promises to give

The Organization has an agreement with a Trust which promises to provide support contingent upon the development of content for specific games. The balance of the agreement is \$68,300 which represents a conditional promise to give as the payments are conditioned upon the Trusts written acceptance of the completed content and game modules.

The same Trust has an agreement directly with a vendor to develop the game modules. To date \$128,000 has been paid to the vendor with an additional \$127,680 conditioned upon the Trust's written acceptance of the completed game modules. Upon the Trust's final acceptance of all game modules, the Trust has promised to assign to the Organization equal and undivided joint-ownership of all rights, titles and interests in the game modules.

7. Commitments

The Organization has a contract in process with a vendor to develop a game module. The balance of the contract not paid or included in accounts payable was \$31,000 as of June 30, 2010 as work related to that payment is to be performed subsequent to year end.

8. Income taxes

As required, the Organization adopted FASB ASC 740-10 during the year beginning July 1, 2009. The adoption did not result in a material impact to the Organization's results of operations or its financial condition. The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private Organization. For the years ended June 30, 2010 and 2009, the Organization did not have any "unrelated business income" subject to income taxes. Accordingly, no provision for income taxes has been included in these financial statements.

The material jurisdictions subject to potential examination by taxing authorities is the U.S. and D.C. The Board does not believe that the ultimate outcome of any future examinations of open tax years will have a material impact on the Organization's results of operations. Tax years that remain subject to examination by the IRS are 2009 and 2010.

See independent auditor's report.