

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2011 AND 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 accompanying statements of financial position of **iCivics, Inc.** (a non-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities, functional expenses, and cash flows for the years 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 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 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 audits provide 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, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
November 1, 2011

iCivics, Inc.

Statements of Financial Position June 30,

2011

2010

Assets

Current assets

Cash	\$ 646,458	\$ 352,634
Prepaid expenses	-	2,542
	<u>646,458</u>	<u>355,176</u>

Intangible assets

Website, net of accumulated amortization	190,207	122,306
Domain name	26,000	26,000
	<u>216,207</u>	<u>148,306</u>

Property and equipment, net of accumulated depreciation

	<u>6,478</u>	<u>-</u>
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Total assets

	<u>\$ 869,143</u>	<u>\$ 503,482</u>
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Liabilities and net assets

Current liabilities

Accounts payable	\$ 9,125	\$ 88,065
Payroll liabilities	20,688	9,431
Total liabilities	<u>29,813</u>	<u>97,496</u>

Net assets

Unrestricted	762,204	391,875
Temporarily restricted	77,126	14,111
Total net assets	<u>839,330</u>	<u>405,986</u>

Total liabilities and net assets

	<u>\$ 869,143</u>	<u>\$ 503,482</u>
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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, 2011**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support			
Contributions	\$ 1,118,174	\$ 175,000	\$ 1,293,174
In-kind contributions	52,947	-	52,947
Net assets released from restrictions	111,985	(111,985)	-
Total support	<u>1,283,106</u>	<u>63,015</u>	<u>1,346,121</u>
Expenses			
Program services	725,658	-	725,658
Management and general	165,250	-	165,250
Fundraising	21,869	-	21,869
Total expenses	<u>912,777</u>	<u>-</u>	<u>912,777</u>
Change in net assets	370,329	63,015	433,344
Net assets, beginning of year	<u>391,875</u>	<u>14,111</u>	<u>405,986</u>
Net assets, end of year	<u>\$ 762,204</u>	<u>\$ 77,126</u>	<u>\$ 839,330</u>

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><u>\$ 391,875</u></u>	<u><u>\$ 14,111</u></u>	<u><u>\$ 405,986</u></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, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 217,558	\$ 28,180	\$ 15,630	\$ 261,368
Game development	210,610	-	-	210,610
Web development and services	60,745	16,970	68	77,783
Website amortization	65,099	-	-	65,099
Travel and lodging	49,072	3,458	586	53,116
Recruiting	120	44,194	-	44,314
Professional services	-	35,056	-	35,056
Printing and reproduction	28,599	1,330	-	29,929
Employee benefits	19,124	2,037	1,374	22,535
Payroll taxes	18,610	1,983	1,337	21,930
Accounting fees	-	19,840	-	19,840
Occupancy	15,163	1,615	1,089	17,867
Meals and entertainment	11,723	1,364	42	13,129
Stipends	8,500	-	-	8,500
Office supplies and expenses	625	6,415	17	7,057
Consultants	6,317	-	-	6,317
Marketing and promotion	4,807	-	-	4,807
Postage and delivery	3,871	472	-	4,343
Equipment rental	2,716	289	195	3,200
Dues and registrations	1,891	184	-	2,075
Licenses and fees	-	135	1,495	1,630
Insurance	-	1,303	-	1,303
Depreciation	500	53	36	589
Communications	8	184	-	192
Bank and credit card fees	-	188	-	188
	<u>\$ 725,658</u>	<u>\$ 165,250</u>	<u>\$ 21,869</u>	<u>\$ 912,777</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
Web development and services	128,683	-	300	128,983
Game development	80,000	-	-	80,000
Professional services	4,000	38,220	-	42,220
Consultants	27,249	-	-	27,249
Travel and lodging	18,790	-	-	18,790
Occupancy	9,922	1,715	696	12,333
Payroll taxes	9,637	1,657	666	11,960
Employee benefits	9,359	1,618	657	11,634
Marketing and promotion	10,744	-	-	10,744
Accounting fees	-	8,900	-	8,900
Meals and entertainment	4,896	-	-	4,896
Equipment rental	2,977	514	209	3,700
Website amortization	3,494	-	-	3,494
Stipends	3,400	-	-	3,400
Office supplies and expenses	1,348	1,759	-	3,107
Printing and reproduction	2,729	-	-	2,729
Dues and registrations	2,436	-	-	2,436
Honorarium	2,000	-	-	2,000
Insurance	-	1,207	-	1,207
Video production	1,200	-	-	1,200
Postage and delivery	536	60	-	596
Licenses and fees	140	-	39	179
Bank and credit card fees	2	153	-	155
Recruiting	120	-	-	120
	<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.

Statements of Cash Flows for the years ended June 30,

2011**2010****Cash flows from operating activities**

Change in net assets	\$ 433,344	\$ 405,977
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Website amortization	65,099	3,494
Depreciation	589	-
(Increase) decrease in operating assets		
Prepaid expenses	2,542	(2,542)
Increase (decrease) in operating liabilities		
Accounts payable	(78,940)	88,065
Payroll liabilities	11,257	9,431
Net cash provided by operating activities	<u>433,891</u>	<u>504,425</u>

Cash flows from investing activities

Expenditures for website	(133,000)	(125,800)
Expenditures for property and equipment	(7,067)	-
Purchase of domain name	-	(26,000)
Net cash used by investing activities	<u>(140,067)</u>	<u>(151,800)</u>

Net increase in cash and cash equivalents

293,824 352,625

Cash and cash equivalents, beginning of year352,634 9**Cash and cash equivalents, end of year**\$ 646,458 \$ 352,634**Supplemental disclosure of cash flow information**

Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<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, 2011 and 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 civics 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 for the year ended June 30, 2010 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, 2011 and 2010, the Organization had no permanently restricted net assets.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2011 and 2010

2. Significant accounting policies (continued)

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. Unlimited FDIC insurance for noninterest-bearing transaction accounts became effective on December 31, 2010 and continues through December 31, 2012. As of June 30, 2011, no amounts exceed federally insured limits as the only account was a non-interest bearing transaction account. As of June 30, 2010, \$184,049 of cash exceeded federally insured limits.

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 years ended June 30, 2011 and 2010, the Organization has determined that there has been no impairment.

Property and equipment

Property and equipment in excess of \$1,000 with a useful life in excess of one year are capitalized at cost, if purchased, or at fair market value, if donated, and depreciated over the estimated useful life of the asset.

Game development

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

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2011 and 2010

2. Significant accounting policies (continued)

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 5 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.

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, 2011 through November 1, 2011, 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.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2011 and 2010

3. Property and equipment

A summary of information related property and equipment as of June 30, 2011 is as follows:

	<u>Capitalized Cost</u>	<u>Beginning accumulated depreciation</u>	<u>Depreciation expense</u>	<u>Ending accumulated depreciation</u>	<u>Useful life (years)</u>
Office equipment	<u>\$ 7,067</u>	<u>\$ -</u>	<u>\$ 589</u>	<u>\$ 589</u>	5

4. Website

A summary of information related to website amortization is as follows:

	<u>Capitalized Cost</u>	<u>Beginning accumulated amortization</u>	<u>Amorization expense</u>	<u>Ending accumulated amortization</u>	<u>Useful life (months)</u>
June 30, 2011	<u>\$ 258,800</u>	<u>\$ 3,494</u>	<u>\$ 65,099</u>	<u>\$ 68,593</u>	36
June 30, 2010	<u>\$ 125,800</u>	<u>\$ -</u>	<u>\$ 3,494</u>	<u>\$ 3,494</u>	36

5. In-kind contributions

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

	<u>2011</u>	<u>2010</u>
Legal services	\$ 34,405	\$ 38,220
Advertising	4,675	2,598
Registration fees	-	274
Use of facilities and equipment	13,867	16,033
	<u>\$ 52,947</u>	<u>\$ 57,125</u>

The Organization received 98.3 and 109.2 hours of in-kind legal services for the year ended June 30, 2011 and 2010, respectively, 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.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2011 and 2010

5. In-kind contributions (continued)

The Organization received rent-free use of office space and equipment from Georgetown Law through February 2011. 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. For the years ended June 30, 2010 and 2010, research assistants donated 250 hours valued at \$4,000 and 398 hours valued at \$6,638, respectively. Additionally, the Organization has approximately 118 volunteer coordinators in 47 states who assist in making sure the games are reflective of state curriculum.

6. Temporarily restricted net assets

Net assets are temporarily restricted for specific purposes.

Temporarily restricted net assets were as follows for the year ended June 30, 2011:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Game development	\$ -	\$ 100,000	\$ (45,153)	\$ 54,847
Teacher training	-	25,000	(16,480)	8,520
Curriculum development	14,111	50,000	(50,352)	13,759
	<u>\$ 14,111</u>	<u>\$ 175,000</u>	<u>\$ (111,985)</u>	<u>\$ 77,126</u>

Temporarily restricted net assets were as follows for the year ended June 30, 2010:

	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>

7. Conditional promises receivable

As of June 30, 2011, the Organization had two conditional promises receivable totaling \$54,989 which are conditioned upon specified milestones related to the development and acceptance of content and game modules. The revenue will be recognized as the milestones are met.

See independent auditor's report.

**Notes to Financial Statements
June 30, 2011 and 2010**

7. Conditional promises receivable (continued)

As of June 30, 2011, the Organization had an additional conditional promise receivable totaling \$498,591 which specifies that all funds not used within the designated grant period, or within an approved extension period, must be returned to the grantor. The revenue will be recognized as the allowable costs are incurred.

As of June 30, 2010, the balance of an agreement with a Trust was \$68,300 which represented a conditional promise receivable as the payments were conditioned upon the Trusts written acceptance of completed content and game modules. The balance was paid during the year ended June, 2011.

The same Trust has an agreement directly with a vendor to develop the game modules. \$128,000 was paid during the year ended June 30, 2010 and \$127,680 was paid during the year ended June 30, 2011. The Organization has been assigned an equal and undivided joint-ownership of all rights, titles and interests in the game modules.

8. Commitments

One March 1, 2011, the Organization began a one year lease for office space. Base rent is \$1,800 per month. The rent expense for the year ended June 30, 2011 was \$7,200. Future minimum lease payments for the period ending February 28, 2012 are \$14,400.

The Organization has contracts in process with a vendor to develop a game module. The balance of the contracts not paid or included in accounts payable was \$56,700 as of June 30, 2011 and \$31,000 as of June 30, 2010. Work related to those payments is to be performed subsequent to year end.

9. Income taxes

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 foundation. For the years ended June 30, 2011 and 2010, 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 through 2011.

10. Agency transactions

During fiscal year 2011, the Organization received funding in the amount of \$234,500 to be granted to a specified recipient. The receipt and disbursement were treated as an agency transaction and were therefore excluded from the Organization's revenue and expenses. The funds were remitted to the specified recipient prior to year end.

See independent auditor's report.