

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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, 2012 and 2011, 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, 2012 and 2011, 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
September 10, 2012

iCivics, Inc.

Statements of Financial Position June 30,

2012

2011

Assets

Current assets

| | | |
|-------------------------------------|----------------|----------------|
| Cash | \$ 727,011 | \$ 646,458 |
| Grants and contributions receivable | 81,000 | - |
| | <u>808,011</u> | <u>646,458</u> |

Intangible assets

| | | |
|--|----------------|----------------|
| Website, net of accumulated amortization | 134,761 | 190,207 |
| Domain name | 26,000 | 26,000 |
| | <u>160,761</u> | <u>216,207</u> |

| | | |
|---|--------------|--------------|
| Property and equipment, net of accumulated depreciation | <u>5,064</u> | <u>6,478</u> |
|---|--------------|--------------|

| | | |
|---------------------|--------------------------|--------------------------|
| Total assets | <u>\$ 973,836</u> | <u>\$ 869,143</u> |
|---------------------|--------------------------|--------------------------|

Liabilities and net assets

Current liabilities

| | | |
|---------------------|---------------|---------------|
| Accounts payable | \$ 27,760 | \$ 9,125 |
| Payroll liabilities | 442 | 20,688 |
| Total liabilities | <u>28,202</u> | <u>29,813</u> |

Net assets

| | | |
|------------------------|----------------|----------------|
| Unrestricted | 605,832 | 762,204 |
| Temporarily restricted | 339,802 | 77,126 |
| Total net assets | <u>945,634</u> | <u>839,330</u> |

| | | |
|---|--------------------------|--------------------------|
| Total liabilities and net assets | <u>\$ 973,836</u> | <u>\$ 869,143</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, 2012

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| Support and revenue | | | |
| Contributions | \$ 525,909 | \$ 678,591 | \$ 1,204,500 |
| In-kind contributions | 192,413 | - | 192,413 |
| Other | 9 | - | 9 |
| Interest income | 394 | - | 394 |
| Net assets released from restrictions | 415,915 | (415,915) | - |
| Total support | <u>1,134,640</u> | <u>262,676</u> | <u>1,397,316</u> |
| Expenses | | | |
| Program services | 902,508 | - | 902,508 |
| Management and general | 279,551 | - | 279,551 |
| Fundraising | 108,953 | - | 108,953 |
| Total expenses | <u>1,291,012</u> | <u>-</u> | <u>1,291,012</u> |
| Change in net assets | (156,372) | 262,676 | 106,304 |
| Net assets, beginning of year | <u>762,204</u> | <u>77,126</u> | <u>839,330</u> |
| Net assets, end of year | <u>\$ 605,832</u> | <u>\$ 339,802</u> | <u>\$ 945,634</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, 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 Functional Expenses for the year ended June 30, 2012

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries | \$ 223,326 | \$ 64,845 | \$ 83,983 | \$ 372,154 |
| Game development | 255,740 | - | - | 255,740 |
| Web development and services | 25,229 | 36,221 | - | 61,450 |
| Website amortization | 92,683 | - | - | 92,683 |
| Travel and lodging | 29,406 | 5,378 | 3,412 | 38,196 |
| Recruiting | - | 949 | - | 949 |
| Professional services | 120 | 97,058 | - | 97,178 |
| Printing and reproduction | 15,913 | 1,288 | 141 | 17,342 |
| Employee benefits | 19,906 | 5,491 | 7,486 | 32,883 |
| Payroll taxes | 18,050 | 5,241 | 6,788 | 30,079 |
| Accounting fees | - | 27,028 | - | 27,028 |
| Occupancy | 12,962 | 3,764 | 4,874 | 21,600 |
| Meals and entertainment | 1,812 | 2,056 | 355 | 4,223 |
| Stipends | 12,600 | - | - | 12,600 |
| Office supplies and expenses | 620 | 6,769 | 313 | 7,702 |
| Consultants | 94,115 | 37 | 50 | 94,202 |
| Marketing and promotion | 93,501 | 13,193 | - | 106,694 |
| Postage and delivery | 3,132 | 1,086 | 405 | 4,623 |
| Dues and registrations | 2,434 | 4,810 | - | 7,244 |
| Licenses and fees | - | 906 | 795 | 1,701 |
| Insurance | - | 1,803 | - | 1,803 |
| Depreciation | 849 | 246 | 319 | 1,414 |
| Communications | 110 | 1,328 | 9 | 1,447 |
| Bank and credit card fees | - | 54 | 23 | 77 |
| | <u>\$ 902,508</u> | <u>\$ 279,551</u> | <u>\$ 108,953</u> | <u>\$ 1,291,012</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.

Statements of Cash Flows for the years ended June 30,

2012

2011

Cash flows from operating activities

| | | |
|---|----------------|----------------|
| Change in net assets | \$ 106,304 | \$ 433,344 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities- | | |
| Website amortization | 92,683 | 65,099 |
| Depreciation | 1,414 | 589 |
| (Increase) decrease in operating assets | | |
| Grants and contributions receivable | (81,000) | 2,542 |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 18,635 | (78,940) |
| Payroll liabilities | (20,246) | 11,257 |
| Net cash provided by operating activities | <u>117,790</u> | <u>433,891</u> |

Cash flows from investing activities

| | | |
|---|-----------------|------------------|
| Expenditures for website | (37,237) | (133,000) |
| Expenditures for property and equipment | - | (7,067) |
| Net cash used by investing activities | <u>(37,237)</u> | <u>(140,067)</u> |

Net increase in cash and cash equivalents

80,553 293,824

Cash and cash equivalents, beginning of year

646,458 352,634

Cash and cash equivalents, end of year

\$ 727,011 \$ 646,458

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, 2012 and 2011

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.

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, 2012 and 2011, the Organization had no permanently restricted net assets.

Cash

Cash consisted of the following as of June 30:

| | 2012 | 2011 |
|----------|-------------------|-------------------|
| Checking | \$ 476,592 | \$ 646,458 |
| Savings | 250,419 | - |
| | <u>\$ 727,011</u> | <u>\$ 646,458</u> |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2012 and 2011

2. Significant accounting policies (continued)

Cash (continued)

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, 2012 and June 30, 2011, no amounts exceed 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.

The current balance of grants and contributions receivable is due within one year. As a result, grants and accounts receivable are measured at net realizable value. iCivics, Inc. has no allowance for bad debts as all amounts are deemed fully collectible. Specific bad debts are expensed as they become known.

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, 2012 and 2011, 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, 2012 and 2011

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 grants and contributions receivable. 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.

3. Property and equipment

Property and equipment consisted of office equipment. A summary of information related property and equipment 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> |
|---------------|-----------------------------|---|---------------------------------|--|--------------------------------|
| June 30, 2012 | <u>\$ 7,067</u> | <u>\$ 589</u> | <u>\$ 1,414</u> | <u>\$ 2,003</u> | 5 |
| June 30, 2011 | <u>\$ 7,067</u> | <u>\$ -</u> | <u>\$ 589</u> | <u>\$ 589</u> | 5 |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2012 and 2011

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, 2012 | <u>\$ 296,037</u> | <u>\$ 68,593</u> | <u>\$ 92,683</u> | <u>\$ 161,276</u> | 36 |
| June 30, 2011 | <u>\$ 258,800</u> | <u>\$ 3,494</u> | <u>\$ 65,099</u> | <u>\$ 68,593</u> | 36 |

5. In-kind contributions

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

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|-------------------|------------------|
| Legal services | \$ 96,250 | \$ 34,405 |
| Advertising | 81,535 | 4,675 |
| Game development | 14,040 | - |
| Use of facilities and equipment | 588 | 13,867 |
| | <u>\$ 192,413</u> | <u>\$ 52,947</u> |

The Organization received 275 and 98.3 hours of in-kind legal services for the year ended June 30, 2012 and 2011, respectively, valued at \$350 per hour. The donated legal services supported the management and general functions of the Organization. The Organization received 234 hours of in-kind game development, valued at \$60 per hour, to create an iPad application during the year ended June 30, 2012. The donated game development services support the program function of the Organization. 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.

iCivics, Inc. is a participant in the Google Grants program which allows them up to \$10,000 per month of free AdWords advertising on Google.com. The value of the AdWords are reported as in-kind advertising. The advertisements support the program function of the Organization.

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 year ended June 30, 2012, research assistants donated 672 hours and interns donated 744 hours. For the year ended June 30, 2011, research assistants donated 250 hours valued at \$4,000. Additionally, the Organization has approximately 109 volunteer coordinators in 47 states that assist in making sure the games are reflective of state curriculum.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2012 and 2011

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, 2012:

| | Beginning Balance | Revenue | Releases | Ending Balance |
|------------------------|----------------------|-------------------|---------------------|-------------------|
| Program activities: | | | | |
| Game development | \$ 54,847 | \$ 130,000 | \$ (81,814) | \$ 103,033 |
| Teacher training | 8,520 | - | (8,520) | - |
| Curriculum development | 13,759 | 50,000 | (16,860) | 46,899 |
| Argumentation Module | - | 498,591 | (308,721) | 189,870 |
| | <u>\$ 77,126</u> | <u>\$ 678,591</u> | <u>\$ (415,915)</u> | <u>\$ 339,802</u> |

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> |

7. Conditional promises receivable

As of June 30, 2012, the Organization had three conditional promises receivable totaling \$89,857 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.

As of June 30, 2011, the Organization had two conditional promises receivable totaling \$54,989 which were conditioned upon specified milestones related to the development and acceptance of content and game modules. The revenue was recognized during the year ended June 30, 2012 as the milestones were met.

See independent auditor's report.

**Notes to Financial Statements
June 30, 2012 and 2011**

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, 2012 and 2011 was \$21,600 and \$7,200, respectively. The lease expired on February 28, 2012, and the Organization continued to rent the office space on a month-to-month basis.

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 \$151,925 as of June 30, 2012 and \$56,700 as of June 30, 2011. Work related to those payments is to be performed subsequent to year end.

The Organization has a contract in process with a University for research consulting services. The balance of the contract not paid or included in accounts payable was \$46,418 as of June 30, 2012. 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, 2012 and 2011, 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 2012.

10. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2012 through September 10, 2012, 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 in the financial statements.

Subsequent to year end, the Organization signed a five year lease for office space commencing October 1, 2012. Base rent is \$4,166 per month and increases at a rate of 2.5% per year.

11. Agency transaction

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.