

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2014 AND 2013

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.

We have audited the accompanying financial statements of **iCivics, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

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.

Auditor's Responsibility

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 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 presentation of the financial statements.

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

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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kositzka, Wicks and Company

Alexandria, Virginia
November 10, 2014

iCivics, Inc.

Statements of Financial Position June 30,

2014

2013

Assets

Current assets

| | | |
|-------------------------------------|------------------|------------------|
| Cash | \$ 619,097 | \$ 1,177,474 |
| Investments | 18,016 | - |
| Prepaid expenses | 4,788 | 4,566 |
| Grants and contributions receivable | 300,000 | 50,000 |
| Accounts receivable | 300,000 | - |
| | <u>1,241,901</u> | <u>1,232,040</u> |

Noncurrent assets

| | | |
|------------------|-------|-------|
| Security deposit | 4,166 | 4,166 |
|------------------|-------|-------|

Intangible assets

| | | |
|------------------------------------------|----------------|---------------|
| Website, net of accumulated amortization | 303,775 | 55,108 |
| Domain name | 26,000 | 26,000 |
| | <u>329,775</u> | <u>81,108</u> |

| | | |
|---------------------------------------------------------|---------------|--------------|
| Property and equipment, net of accumulated depreciation | <u>13,996</u> | <u>9,173</u> |
|---------------------------------------------------------|---------------|--------------|

Total assets

| | |
|--------------|--------------|
| \$ 1,589,838 | \$ 1,326,487 |
|--------------|--------------|

Liabilities and net assets

Current liabilities

| | | |
|---------------------|---------------|---------------|
| Accounts payable | \$ 14,844 | \$ 10,937 |
| Payroll liabilities | 22,828 | 8,020 |
| Total liabilities | <u>37,672</u> | <u>18,957</u> |

Net assets

| | | |
|------------------------|------------------|------------------|
| Unrestricted | 1,318,118 | 1,096,900 |
| Temporarily restricted | 234,048 | 210,630 |
| Total net assets | <u>1,552,166</u> | <u>1,307,530</u> |

Total liabilities and net assets

| | |
|--------------|--------------|
| \$ 1,589,838 | \$ 1,326,487 |
|--------------|--------------|

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, 2014

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|---------------------|---------------------------|---------------------|
| Support and revenue | | | |
| Contributions | \$ 886,166 | \$ 380,740 | \$ 1,266,906 |
| In-kind contributions | 585,958 | - | 585,958 |
| Royalties and contract income | 300,510 | - | 300,510 |
| Other | 9,414 | - | 9,414 |
| Investment income | 60 | - | 60 |
| Net assets released from restrictions | 357,322 | (357,322) | - |
| Total support | <u>2,139,430</u> | <u>23,418</u> | <u>2,162,848</u> |
| Expenses | | | |
| Program services | 1,335,632 | - | 1,335,632 |
| Management and general | 387,791 | - | 387,791 |
| Fundraising | 194,789 | - | 194,789 |
| Total expenses | <u>1,918,212</u> | <u>-</u> | <u>1,918,212</u> |
| Change in net assets | 221,218 | 23,418 | 244,636 |
| Net assets, beginning of year | <u>1,096,900</u> | <u>210,630</u> | <u>1,307,530</u> |
| Net assets, end of year | <u>\$ 1,318,118</u> | <u>\$ 234,048</u> | <u>\$ 1,552,166</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, 2013

| | Unrestricted | Temporarily Restricted | Total |
|---------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Support | | | |
| Contributions | \$ 899,250 | \$ 454,407 | \$ 1,353,657 |
| In-kind contributions | 550,190 | - | 550,190 |
| Royalties and contract income | 348,918 | - | 348,918 |
| Other | 1,755 | - | 1,755 |
| Interest income | 217 | - | 217 |
| Net assets released from restrictions | 583,579 | (583,579) | - |
| Total support | <u>2,383,909</u> | <u>(129,172)</u> | <u>2,254,737</u> |
| Expenses | | | |
| Program services | 1,337,488 | - | 1,337,488 |
| Management and general | 306,317 | - | 306,317 |
| Fundraising | 249,036 | - | 249,036 |
| Total expenses | <u>1,892,841</u> | <u>-</u> | <u>1,892,841</u> |
| Change in net assets | 491,068 | (129,172) | 361,896 |
| Net assets, beginning of year | <u>605,832</u> | <u>339,802</u> | <u>945,634</u> |
| Net assets, end of year | <u>\$ 1,096,900</u> | <u>\$ 210,630</u> | <u>\$ 1,307,530</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, 2014**

| | Program Services | Management and General | Fundraising | Total |
|--------------------------------|---------------------|---------------------------|-------------------|---------------------|
| Accounting fees | \$ - | \$ 32,391 | \$ - | \$ 32,391 |
| Bank and credit card fees | - | 1,106 | 152 | 1,258 |
| Communications | - | 14,348 | 323 | 14,671 |
| Conference | 5,163 | - | 50 | 5,213 |
| Consultants | 24,819 | 5,485 | 5,575 | 35,879 |
| Depreciation | 2,194 | 493 | 613 | 3,300 |
| Dues and registrations | 234 | 1,620 | 132 | 1,986 |
| Employee benefits | 20,927 | 3,520 | 5,848 | 30,295 |
| Game development | 64,334 | - | - | 64,334 |
| Grants | - | - | 1,100 | 1,100 |
| Insurance | - | 2,026 | - | 2,026 |
| Licenses and fees | - | 95 | - | 95 |
| Marketing and promotion | 68,000 | 9,090 | 2,439 | 79,529 |
| Meals and entertainment | 3,045 | 4,547 | 7,345 | 14,937 |
| Occupancy | 34,334 | 7,707 | 9,595 | 51,636 |
| Office supplies and expenses | 1,099 | 10,790 | 244 | 12,133 |
| Payroll taxes | 18,375 | 9,926 | 9,385 | 37,686 |
| Postage and delivery | 58 | 618 | 3,000 | 3,676 |
| Printing and reproduction | 13,632 | 2,514 | 15,224 | 31,370 |
| Professional development | - | 995 | - | 995 |
| Professional services | - | 5,879 | - | 5,879 |
| Recruiting | - | 71,088 | - | 71,088 |
| Salaries | 298,888 | 82,428 | 104,920 | 486,236 |
| Software licenses and services | 7,886 | 833 | 106 | 8,825 |
| Stipends | 6,750 | - | 500 | 7,250 |
| Travel and lodging | 19,778 | 12,263 | 27,958 | 59,999 |
| Video production | 29,703 | - | 280 | 29,983 |
| Web development and services | 159,947 | 3,204 | - | 163,151 |
| Website amortization | 75,333 | - | - | 75,333 |
| | <u>854,499</u> | <u>282,966</u> | <u>194,789</u> | <u>1,332,254</u> |
| In-kind contributions | | | | |
| Marketing and promotion | 481,133 | - | - | 481,133 |
| Professional services | - | 104,825 | - | 104,825 |
| | <u>481,133</u> | <u>104,825</u> | <u>-</u> | <u>585,958</u> |
| | <u>\$ 1,335,632</u> | <u>\$ 387,791</u> | <u>\$ 194,789</u> | <u>\$ 1,918,212</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, 2013**

| | Program Services | Management and General | Fundraising | Total |
|------------------------------|---------------------|---------------------------|-------------------|---------------------|
| Accounting fees | \$ - | \$ 29,182 | \$ - | \$ 29,182 |
| Bank and credit card fees | - | 244 | - | 244 |
| Communications | 34 | 11,445 | 43 | 11,522 |
| Conference | 617 | 2,160 | 723 | 3,500 |
| Consultants | 87,325 | 764 | 27,775 | 115,864 |
| Depreciation | 1,131 | 260 | 384 | 1,775 |
| Dues and registrations | 1,133 | 1,398 | 7,086 | 9,617 |
| Employee benefits | 28,452 | 4,941 | 9,663 | 43,056 |
| Game development | 264,925 | - | - | 264,925 |
| Grants | - | - | 2,200 | 2,200 |
| Insurance | - | 2,252 | - | 2,252 |
| Licenses and fees | - | 334 | 215 | 549 |
| Marketing and promotion | 315 | 252 | 30,670 | 31,237 |
| Meals and entertainment | 1,149 | 2,157 | 23,210 | 26,516 |
| Occupancy | 27,010 | 6,206 | 9,174 | 42,390 |
| Office supplies and expenses | 289 | 16,001 | 58 | 16,348 |
| Payroll taxes | 14,707 | 5,287 | 11,812 | 31,806 |
| Postage and delivery | 410 | 1,933 | 3,441 | 5,784 |
| Printing and reproduction | 424 | 3,067 | 11,261 | 14,752 |
| Professional development | - | 65 | - | 65 |
| Professional services | 11,160 | 2,644 | 650 | 14,454 |
| Recruiting | - | 240 | - | 240 |
| Salaries | 256,420 | 58,916 | 87,093 | 402,429 |
| Stipends | 17,200 | 5,565 | - | 22,765 |
| Travel and lodging | 10,600 | 6,626 | 22,322 | 39,548 |
| Utilities | - | 333 | 156 | 489 |
| Web development and services | 96,852 | 12,895 | 1,100 | 110,847 |
| Website amortization | 98,295 | - | - | 98,295 |
| | <u>918,448</u> | <u>175,167</u> | <u>249,036</u> | <u>1,342,651</u> |
| In-kind contributions | | | | |
| Marketing and promotion | 419,040 | - | - | 419,040 |
| Professional services | - | 131,150 | - | 131,150 |
| | <u>419,040</u> | <u>131,150</u> | <u>-</u> | <u>550,190</u> |
| | <u>\$ 1,337,488</u> | <u>\$ 306,317</u> | <u>\$ 249,036</u> | <u>\$ 1,892,841</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,

2014

2013

Cash flows from operating activities

| | | |
|---------------------------------------------------------------------------------------------|------------------|----------------|
| Change in net assets | \$ 244,636 | \$ 361,896 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities- | | |
| Website amortization | 75,333 | 98,295 |
| Depreciation | 3,300 | 1,775 |
| Donated investments | (18,093) | - |
| Unrealized loss on investments | 100 | - |
| (Increase) decrease in operating assets | | |
| Prepaid expenses | (222) | (4,566) |
| Grants and contributions receivable | (250,000) | 31,000 |
| Accounts receivable | (300,000) | - |
| Security deposit | - | (4,166) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable | 3,907 | (16,823) |
| Payroll liabilities | 14,808 | 7,578 |
| Net cash provided (used) by operating activities | <u>(226,231)</u> | <u>474,989</u> |

Cash flows from investing activities

| | | |
|-----------------------------------------|------------------|-----------------|
| Expenditures for website | (324,000) | (18,642) |
| Expenditures for property and equipment | (8,123) | (5,884) |
| Purchase of investments | (23) | - |
| Net cash used by investing activities | <u>(332,146)</u> | <u>(24,526)</u> |

Net change in cash and cash equivalents

(558,377) 450,463

Cash and cash equivalents, beginning of year

1,177,474 727,011

Cash and cash equivalents, end of year

\$ 619,097 \$ 1,177,474

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, 2014 and 2013

1. Organization

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

iCivics is committed to transforming civic learning through powerful ideas and innovative resources, so that all students have the opportunity to become engaged citizens. iCivics makes civic education relevant to new generations of Americans through video games and other classroom resources that encourage innovative teaching. Our resources are fun for students and practical for teachers in everyday classrooms.

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, 2014 and 2013, the Organization had no permanently restricted net assets.

Cash

Cash consisted of the following as of June 30:

| | <u>2014</u> | <u>2013</u> |
|----------|-------------------|---------------------|
| Checking | \$ 368,326 | \$ 926,838 |
| Savings | <u>250,771</u> | <u>250,636</u> |
| | <u>\$ 619,097</u> | <u>\$ 1,177,474</u> |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2014 and 2013

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 an institution covered by FDIC. 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, 2014, \$369,097 exceeded federally insured limits. As of June 30, 2013, \$927,474 exceeded federally insured limits.

Investments

Investments consist of equity securities which are carried at their fair market values. The fair values of investments are based on publicly available market data obtained from services independent of iCivics.

Investment income or loss (including gains and losses on investments, interest, and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Receivables

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, contributions, and accounts receivable is due within one year. As a result, grants, contributions, and accounts receivable are measured at net realizable value. iCivics, Inc. has no allowance for bad debts as all amounts are deemed fully collectible.

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, 2014 and 2013, 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 at the date of donation, if donated, and depreciated over the estimated useful life of the asset.

See independent auditor's report.

2. Significant accounting policies (continued)

Game development

Costs to develop educational games and content are expensed as incurred and classified as a program service expense. The costs included in game development on the statement of functional expenses include only payments made to outside contractors, and does not include internal staff time spent to develop games.

Royalties

Royalties are generated from the distribution and licensing of the Organization's content and are recognized when there is evidence of a sale or licensing arrangement, the program is complete and available for delivery, and the license period has begun.

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 6 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, prepaid expenses, and grants, contributions, and accounts 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.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2014 and 2013

3. Investments

Investment income for the year ended June 30, 2014 consisted of the following:

| | | |
|------------------------------|----|-----------|
| Interest and dividend income | \$ | 160 |
| Unrealized losses | | (100) |
| | \$ | <u>60</u> |

The Organization classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Investments consist solely of public traded equity securities which are measured at fair value on a recurring basis using Level 1 measurements.

4. Property and equipment

Property and equipment consisted of office equipment. A summary of information related property and equipment is as follows:

| | Capitalized Cost | Accumulated depreciation | Net | Depreciation expense | Useful life (years) |
|---------------|---------------------|-----------------------------|------------------|-------------------------|------------------------|
| June 30, 2014 | <u>\$ 21,074</u> | <u>\$ 7,078</u> | <u>\$ 13,996</u> | <u>\$ 3,300</u> | 5 |
| June 30, 2013 | <u>\$ 12,951</u> | <u>\$ 3,778</u> | <u>\$ 9,173</u> | <u>\$ 1,775</u> | 5 |

5. Website

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

| | Capitalized Cost | Accumulated amortization | Net | Amorization expense | Useful life (months) |
|---------------|---------------------|-----------------------------|-------------------|------------------------|-------------------------|
| June 30, 2014 | <u>\$ 512,879</u> | <u>\$ 209,104</u> | <u>\$ 303,775</u> | <u>\$ 75,333</u> | 36 |
| June 30, 2013 | <u>\$ 314,679</u> | <u>\$ 259,571</u> | <u>\$ 55,108</u> | <u>\$ 98,295</u> | 36 |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2014 and 2013

6. In-kind contributions

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

| | <u>2014</u> | <u>2013</u> |
|----------------------------------|-------------------|-------------------|
| Legal services | \$ 104,825 | \$ 118,650 |
| Advertising | 481,133 | 419,040 |
| Strategic development consulting | - | 12,500 |
| | <u>\$ 585,958</u> | <u>\$ 550,190</u> |

The donated legal services supported the management and general functions of the Organization. The Organization also received in-kind strategic development consulting during the year ended June 30, 2013, which supported the management and general functions 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 a specified amount per month of free AdWords advertising on Google.com. The maximum amount for the years ended June 30, 2014 and 2013 was \$40,000 per month. 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, 2014, a research assistant donated 60 hours and an intern donated 145 hours. For the year ended June 30, 2013, a research assistant donated 338 hours and an intern donated 220 hours. Additionally, the Organization has approximately 109 volunteer coordinators in 47 states that assist in ensuring the games are reflective of state curriculum.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2014 and 2013

7. 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, 2014:

| | <u>Beginning Balance</u> | <u>Revenue</u> | <u>Releases</u> | <u>Ending Balance</u> |
|---------------------------------------------------------------------------------------|------------------------------|-------------------|---------------------|---------------------------|
| Program activities: | | | | |
| Game development | \$ - | \$ 30,000 | \$ (26,250) | \$ 3,750 |
| Website redesign | 174,807 | 350,740 | (295,249) | 230,298 |
| Grant to develop performance metrics for organizational accountability measurement | 15,823 | - | (15,823) | - |
| National Geographic Education | 20,000 | - | (20,000) | - |
| | <u>\$ 210,630</u> | <u>\$ 380,740</u> | <u>\$ (357,322)</u> | <u>\$ 234,048</u> |

Temporarily restricted net assets were as follows for the year ended June 30, 2013:

| | <u>Beginning Balance</u> | <u>Revenue</u> | <u>Releases</u> | <u>Ending Balance</u> |
|---------------------------------------------------------------------------------------|------------------------------|-------------------|---------------------|---------------------------|
| Program activities: | | | | |
| Game development | \$ 103,033 | \$ 100,107 | \$ (203,140) | \$ - |
| Curriculum development | 46,899 | 50,000 | (96,899) | - |
| Argumentation module | 189,870 | - | (189,870) | - |
| Website redesign | - | 250,000 | (75,193) | 174,807 |
| Grant to develop performance metrics for organizational accountability measurement | - | 34,300 | (18,477) | 15,823 |
| National Geographic Education | - | 20,000 | - | 20,000 |
| | <u>\$ 339,802</u> | <u>\$ 454,407</u> | <u>\$ (583,579)</u> | <u>\$ 210,630</u> |

8. Conditional promises receivable

As of June 30, 2014, the Organization had five conditional promises receivable totaling \$584,260 which are conditioned upon specified milestones. As of June 30, 2013, the Organization had three conditional promises receivable totaling \$505,000 which are conditioned upon specified milestones. In accordance with generally accepted accounting principles, conditional promises to give are not recorded until the specified milestones are reached.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2014 and 2013

9. Commitments

In July 2012, the Organization began a five year lease for office space. Base rent is \$4,270 per month and increases 2.5% each year. The rent expense for the years ended June 30, 2014 and 2013 was \$51,636 and \$42,390, respectively. Minimum future lease payments are as follows for the years ended June 30,

| | | |
|------|----|----------------|
| 2015 | \$ | 52,197 |
| 2016 | | 53,502 |
| 2017 | | 54,167 |
| 2018 | | 13,794 |
| | \$ | <u>173,660</u> |

The Organization subleased a portion of the office space to an unrelated organization for \$500 per month through June 30, 2014. Sublease payments received during the year ended June 30, 2014 totaled \$6,000 and were recorded in other income on the accompanying statement of activities. Sublease payments received during the year ended June 30, 2013 totaled \$500 and were recorded against occupancy expense in the accompanying statement of functional expenses.

The Organization has contracts in process with a vendor to redesign the website and develop games. The balance of the contract not paid or included in accounts payable was \$70,080 as of June 30, 2014. Work related to those payments is to be performed subsequent to year end.

10. 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, 2014 and 2013, 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 Organization is subject to potential examination by the U.S. and D.C. taxing authorities. The Organization 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 the years ended June 30, 2011 through June 30, 2014.

11. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2014 through November 10, 2014, 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.

See independent auditor's report.