

# ICIVICS, INC.

## FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

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, 2015 and 2014, 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, 2015 and 2014, 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 11, 2015

# iCivics, Inc.

## Statements of Financial Position June 30,

	2015	2014
<b>Assets</b>		
Current assets		
Cash	\$ 1,534,207	\$ 619,097
Investments	-	18,016
Prepaid expenses	15,835	4,788
Grants and contributions receivable	325,000	300,000
Accounts receivable, net of allowance	100,500	300,000
	<u>1,975,542</u>	<u>1,241,901</u>
Noncurrent assets		
Security deposit	4,166	4,166
Intangible assets		
Website, net of accumulated amortization	256,932	303,775
Domain name	26,000	26,000
	<u>282,932</u>	<u>329,775</u>
Property and equipment, net of accumulated depreciation	<u>16,536</u>	<u>13,996</u>
<b>Total assets</b>	<b><u>\$ 2,279,176</u></b>	<b><u>\$ 1,589,838</u></b>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 55,574	\$ 14,844
Accrued payroll and related liabilities	43,428	22,828
Total liabilities	<u>99,002</u>	<u>37,672</u>
Net assets		
Unrestricted	1,071,148	1,318,118
Unrestricted, board designated MacArthur Venture Fund	506,215	-
Unrestricted, board designated Sandra Day O'Connor Growth Fund	10,125	-
Temporarily restricted	275,036	234,048
Permanently restricted	317,650	-
Total net assets	<u>2,180,174</u>	<u>1,552,166</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 2,279,176</u></b>	<b><u>\$ 1,589,838</u></b>

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, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Support and revenue</b>				
Grants and contributions	\$ 1,287,173	\$ 458,260	\$ 317,650	\$ 2,063,083
In-kind contributions	570,366	-	-	570,366
Royalties and contract income	157,386	-	-	157,386
Other	5,508	-	-	5,508
Investment income	24	36	-	60
Net assets released from restrictions	417,308	(417,308)	-	-
Total support	<u>2,437,765</u>	<u>40,988</u>	<u>317,650</u>	<u>2,796,403</u>
<b>Expenses</b>				
Program services	1,609,092	-	-	1,609,092
Management and general	354,313	-	-	354,313
Fundraising	204,990	-	-	204,990
Total expenses	<u>2,168,395</u>	<u>-</u>	<u>-</u>	<u>2,168,395</u>
<b>Change in net assets</b>	269,370	40,988	317,650	628,008
<b>Net assets, beginning of year</b>	<u>1,318,118</u>	<u>234,048</u>	<u>-</u>	<u>1,552,166</u>
<b>Net assets, end of year</b>	<u>\$ 1,587,488</u>	<u>\$ 275,036</u>	<u>\$ 317,650</u>	<u>\$ 2,180,174</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, 2014

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	Unrestricted	Temporarily Restricted	Total
<b>Support</b>			
Grants and 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>
<b>Expenses</b>			
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>
<b>Change in net assets</b>	221,218	23,418	244,636
<b>Net assets, beginning of year</b>	<u>1,096,900</u>	<u>210,630</u>	<u>1,307,530</u>
<b>Net assets, end of year</b>	<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 Functional Expenses for the year ended June 30, 2015

	Program Services	Management and General	Fundraising	Total
Accounting fees	\$ -	\$ 32,224	\$ -	\$ 32,224
Bank and credit card fees	22	2,135	-	2,157
Communications	83	16,985	-	17,068
Conference	4,585	1,745	-	6,330
Consultants	72,800	30,009	5,790	108,599
Depreciation	3,407	738	812	4,957
Dues and registrations	346	1,440	1,742	3,528
Employee benefits	25,444	5,762	6,066	37,272
Game development	82,520	-	-	82,520
Insurance	-	3,397	-	3,397
Licenses and fees	-	402	-	402
Marketing and promotion	48,859	710	1,620	51,189
Meals and entertainment	5,257	7,793	189	13,239
Occupancy	38,123	8,254	9,088	55,465
Office supplies and expenses	353	6,205	-	6,558
Payroll taxes	34,239	7,413	8,162	49,814
Postage and delivery	1,744	827	17	2,588
Printing and reproduction	8,741	2,458	1,010	12,209
Professional development	-	185	-	185
Professional services	6,000	979	-	6,979
Recruiting	-	42,681	-	42,681
Salaries	468,602	101,452	111,710	681,764
Software licenses and services	15,464	553	557	16,574
Travel and lodging	50,410	38,456	3,227	92,093
Video production	7,645	-	-	7,645
Web development and services	119,849	-	-	119,849
Website amortization	140,743	-	-	140,743
	<u>1,135,236</u>	<u>312,803</u>	<u>149,990</u>	<u>1,598,029</u>
In-kind contributions				
Marketing and promotion	473,856	-	-	473,856
Legal services	-	41,510	55,000	96,510
	<u>473,856</u>	<u>41,510</u>	<u>55,000</u>	<u>570,366</u>
	<u>\$ 1,609,092</u>	<u>\$ 354,313</u>	<u>\$ 204,990</u>	<u>\$ 2,168,395</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
Legal 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.

## Statements of Cash Flows for the years ended June 30,

2015

2014

### Cash flows from operating activities

Change in net assets	\$ 628,008	\$ 244,636
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Website amortization	140,743	75,333
Depreciation	4,957	3,300
Donated investments	(34,205)	(18,093)
Unrealized loss on investments	400	100
(Increase) decrease in operating assets		
Prepaid expenses	(11,047)	(222)
Grants and contributions receivable	(25,000)	(250,000)
Accounts receivable	199,500	(300,000)
Increase (decrease) in operating liabilities		
Accounts payable	40,730	3,907
Accrued payroll and related liabilities	20,600	14,808
Net cash provided (used) by operating activities	<u>964,686</u>	<u>(226,231)</u>

### Cash flows from investing activities

Expenditures for website	(93,900)	(324,000)
Expenditures for property and equipment	(7,497)	(8,123)
Sale of investments	51,821	(23)
Net cash used by investing activities	<u>(49,576)</u>	<u>(332,146)</u>

### Net change in cash and cash equivalents

915,110 (558,377)

### Cash and cash equivalents, beginning of year

619,097 1,177,474

### Cash and cash equivalents, end of year

\$ 1,534,207 \$ 619,097

### 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, 2015 and 2014

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### 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.

#### Cash

Cash consisted of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Checking	\$ 957,822	\$ 368,326
Savings	<u>576,385</u>	<u>250,771</u>
	<u>\$ 1,534,207</u>	<u>\$ 619,097</u>

See independent auditor's report.

# **iCivics, Inc.**

## **Notes to Financial Statements June 30, 2015 and 2014**

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### **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, 2015, \$1,284,207 exceeded federally insured limits. As of June 30, 2014, \$369,097 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. Accounts receivable is net of an allowance of \$200,000 as of June 30, 2015. The allowance was established to offset a specific receivable in order to reflect net realizable value. The allowance was recorded as a reduction of the royalties and contract income from the specific contract.

#### **Website**

In accordance with generally accepted accounting principles, costs incurred to plan the website are expensed as incurred while costs incurred to develop the infrastructure and graphics of the website are capitalized. All costs to operate the site are expensed as incurred. The capitalized costs are 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, grants and contributions receivable, and accounts receivable. Financial liabilities with carrying values approximating fair value include accounts payable and accrued payroll and related 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, 2015 and 2014

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### 2. Significant accounting policies (continued)

#### 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, 2015 and 2014, 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, 2012 through June 30, 2015.

### 3. Investments

Investment income for the years ended June 30, 2015 and 2014 consisted of the following:

	2015	2014
Interest and dividend income	\$ 460	\$ 160
Unrealized losses	(400)	(100)
	<u>\$ 60</u>	<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.

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2015 and 2014

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### 4. 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>Accumulated depreciation</u>	<u>Net</u>	<u>Depreciation expense</u>	<u>Useful life (years)</u>
June 30, 2015	<u>\$ 28,571</u>	<u>\$ 12,035</u>	<u>\$ 16,536</u>	<u>\$ 4,957</u>	5
June 30, 2014	<u>\$ 21,074</u>	<u>\$ 7,078</u>	<u>\$ 13,996</u>	<u>\$ 3,300</u>	5

### 5. Website

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

	<u>Capitalized Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Amorization expense</u>	<u>Useful life (months)</u>
June 30, 2015	<u>\$ 606,779</u>	<u>\$ 349,847</u>	<u>\$ 256,932</u>	<u>\$ 140,743</u>	36
June 30, 2014	<u>\$ 512,879</u>	<u>\$ 209,104</u>	<u>\$ 303,775</u>	<u>\$ 75,333</u>	36

### 6. In-kind contributions

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

	<u>2015</u>	<u>2014</u>
Legal services	<u>\$ 96,510</u>	<u>\$ 104,825</u>
Marketing and promotion	<u>473,856</u>	<u>481,133</u>
	<u>\$ 570,366</u>	<u>\$ 585,958</u>

The donated legal services supported the management and general and fundraising 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, 2015 and 2014 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.

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2015 and 2014

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### 6. In-kind contributions (continued)

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, 2015, a research assistant donated 10 hours and an intern donated 165 hours. For the year ended June 30, 2014, a research assistant donated 60 hours and an intern donated 145 hours. Additionally, the Organization has approximately 59 volunteer coordinators in 36 states that assist in ensuring the games are reflective of state curriculum.

### 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, 2015:

	Beginning Balance	Revenue	Releases	Ending Balance
Program activities:				
Game development	\$ 3,750	\$ 130,000	\$ (33,750)	\$ 100,000
Website redesign	230,298	153,260	(383,558)	-
MacArthur Award for Creative & Effective Institutions - development capacity	-	150,000	-	150,000
Montana master teacher training	-	25,000	-	25,000
Earnings from Sandra Day O'Connor Endowment Fund	-	36	-	36
	<u>\$ 234,048</u>	<u>\$ 458,296</u>	<u>\$ (417,308)</u>	<u>\$ 275,036</u>

Temporarily restricted net assets were as follows for the year ended June 30, 2014:

	Beginning Balance	Revenue	Releases	Ending Balance
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>

See independent auditor's report.

**8. MacArthur Award for Creative and Effective Institutions**

In 2015, the John D. and Catherine T. MacArthur Foundation awarded iCivics, Inc. a \$750,000 grant to support the long-term sustainability of the organization. \$150,000 was designated to increase and professionalize development capacity to facilitate new long-term, sustainable charitable giving models as well as the tools required to support those efforts. These funds will be expended in FY 2016 and are included in temporarily restricted net assets above.

The remaining \$600,000 was placed in the MacArthur Venture Fund. The MacArthur Venture Fund is intended to support necessary capital or infrastructure projects that will benefit the long-term sustainability of iCivics, subject to approval by the board of directors. The MacArthur Venture Fund is a board designated and controlled fund and is not intended to be an endowment fund. During the fiscal year ended June 30, 2015, the board approved \$60,000 to be expended towards the creation of an iCivics Marketplace and \$350,000 towards game development. As of June 30, 2015, \$93,785 had been expended for these purposes.

**9. Sandra Day O'Connor Legacy Fund**

In 2015, iCivics, Inc. established the Sandra Day O'Connor Growth Fund and the Sandra Day O'Connor Endowment Fund as components of the Sandra Day O'Connor Legacy Fund. The Sandra Day O'Connor Growth Fund is intended to support necessary capital or infrastructure projects that will benefit the long-term sustainability of iCivics, subject to approval by the board of directors. The Growth Fund is a board designated and controlled fund and is not intended to be an endowment fund. Initial contributions of \$10,125 were received during fiscal year 2015.

The Sandra Day O'Connor Endowment Fund was established to further the charitable and educational purposes of iCivics by providing general support for its operating and program-related needs. Initial contributions of \$317,650 were received with donor intent to secure them in a segregated permanent endowment fund. Income earned on the Fund was \$36 for the year ended June 30, 2015. Additional information related to the endowment fund is contained in Note 10.

See independent auditor's report.

**10. Endowment funds**

The iCivics, Inc. endowment funds consist of one permanently restricted fund (the Fund), as detailed in Note 9. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions. As of June 30, 2015, the Fund was held in an interest bearing savings account until the board approved the investment allocation and policies. The policies detailed below were approved during August 2015.

Interpretation of Relevant Law

The D.C. Uniform Prudent Management of Institutional Funds Act (UPMIFA) requires the preservation of the fair value of the original gifts as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. iCivics, Inc. classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment required to be made by explicit directions in the applicable donor gift instrument at the time the gift is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, iCivics, Inc. considers the following factors in making a determination to appropriate or accumulate additions to donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effects of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization

Return Objectives and Risk Parameters

iCivics, Inc. has adopted investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its Funds while seeking to maintain the purchasing power of the assets. Endowment assets include those assets of donor-restricted funds that iCivics, Inc. must hold in perpetuity as well as increases in the market value of securities held by the fund and some of the income provided by these investments. Under the policy, the endowment assets are invested in a manner that is intended to maximize current return and provide growth and income that at a minimum exceeds inflation for the current year. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives

To satisfy its long-term rate-of-return objectives, iCivics, Inc. relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). iCivics, Inc. targets a diversified asset allocation unless it prudently determines that, because of special circumstances, the Portfolio or a particular fund or funds within the Portfolio are better served without diversification.

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# iCivics, Inc.

## Notes to Financial Statements June 30, 2015 and 2014

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### 10. Endowment funds (continued)

#### Spending policy and how the investment objectives relate to spending policy

iCivics, Inc.'s spending policy is consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, expenditures should be less than the total inflation-adjusted return on investments. The Board will communicate to the Investment Advisor its annual spending rate from its endowment funds.

#### Net asset composition by type of fund

The net assets consisted of the following as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Sandra Day O'Connor Endowment Fund	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ 317,650</u>	<u>\$ 317,686</u>

#### Changes in endowment and Board designated net assets

The net activity consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Endowment funds as of June 30, 2014</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Interest income	-	36	-	36
Contributions to perpetual endowment	-	-	317,650	317,650
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Endowment funds as of June 30, 2015</b>	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ 317,650</u>	<u>317,686</u>

#### Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires iCivics, Inc. to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2015.

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# iCivics, Inc.

## Notes to Financial Statements June 30, 2015 and 2014

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### 11. Conditional promises receivable

As of June 30, 2015, the Organization had two conditional promises receivable totaling \$105,000 which are conditioned upon specified milestones. As of June 30, 2014, the Organization had five conditional promises receivable totaling \$584,260 which were conditioned upon specified milestones. In accordance with generally accepted accounting principles, conditional promises to give are not recorded until the specified milestones are reached.

### 12. Commitments

#### Lease

In October 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, 2015 and 2014 was \$55,065 and \$51,636, respectively. Minimum future lease payments are as follows for the years ended June 30,

2016	\$ 53,502
2017	54,167
2018	13,794
	<u>\$ 121,463</u>

The Organization subleased a portion of the office space to an unrelated organization for \$500 per month through June 30, 2015. Sublease payments received during the years ended June 30, 2015 and 2014 totaled \$6,000 and \$5,500 and were recorded in other income on the accompanying statement of activities. The sublease was extended through October 31, 2015. As a result, an additional \$2,000 of sublease income is expected during the year ending June 30, 2016.

#### Contracts

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 \$193,690 as of June 30, 2015. Work related to those payments is to be performed subsequent to year end.

### 13. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2015 through November 11, 2015, 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.