

# ICIVICS, INC.

## FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

KOSITZKA, WICKS & COMPANY  
CERTIFIED PUBLIC ACCOUNTANTS



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*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, 2017 and 2016, 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, 2017 and 2016, 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 14, 2017

# iCivics, Inc.

## Statements of Financial Position June 30,

	2017	2016
<b>Assets</b>		
Current assets		
Cash	\$ 1,593,794	\$ 829,517
Prepaid expenses	71,290	38,135
Accounts receivable, net of allowance, current portion	83,418	90,000
Grants and contributions receivable-net, current portion	375,178	356,500
Investments, current portion	47,930	12,516
	<u>2,171,610</u>	<u>1,326,668</u>
Noncurrent assets		
Accounts receivable, net of allowance, long-term portion	-	60,000
Grants and contributions receivable-net, long-term portion	376,994	404,485
Investments, long-term portion	475,167	400,190
Cash restricted for permanent endowment	15,693	90,670
Security deposit	8,233	8,233
	<u>876,087</u>	<u>963,578</u>
Intangible assets		
Website, net of accumulated amortization	21,892	128,696
Domain name	26,000	26,000
	<u>47,892</u>	<u>154,696</u>
Property and equipment, net of accumulated depreciation	<u>15,732</u>	<u>17,613</u>
<b>Total assets</b>	<b><u>\$ 3,111,321</u></b>	<b><u>\$ 2,462,555</u></b>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 73,464	\$ 33,541
Accrued payroll and related liabilities	145,214	99,141
	<u>218,678</u>	<u>132,682</u>
Noncurrent liabilities		
Deferred rent	4,769	1,403
Total liabilities	<u>223,447</u>	<u>134,085</u>
Net assets		
Unrestricted	354,922	411,823
Unrestricted, board designated MacArthur Venture Fund	190,000	190,000
Unrestricted, board designated Sandra Day O'Connor Growth Fund	424,408	284,408
Temporarily restricted	1,427,684	951,379
Permanently restricted	490,860	490,860
Total net assets	<u>2,887,874</u>	<u>2,328,470</u>
<b>Total liabilities and net assets</b>	<b><u>\$ 3,111,321</u></b>	<b><u>\$ 2,462,555</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, 2017**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Grants and contributions	\$ 1,436,331	\$ 1,175,000	\$ -	\$ 2,611,331
In-kind contributions	740,450	-	-	740,450
Royalties and contract income	633,100	-	-	633,100
Other	54,581	-	-	54,581
Investment income	477	35,414	-	35,891
Net assets released from restrictions	734,109	(734,109)	-	-
Total support	<u>3,599,048</u>	<u>476,305</u>	<u>-</u>	<u>4,075,353</u>
<b>Expenses</b>				
Program services	2,746,511	-	-	2,746,511
Management and general	298,285	-	-	298,285
Fundraising	471,153	-	-	471,153
Total expenses	<u>3,515,949</u>	<u>-</u>	<u>-</u>	<u>3,515,949</u>
<b>Change in net assets</b>	83,099	476,305	-	559,404
<b>Net assets, beginning of year</b>	<u>886,231</u>	<u>951,379</u>	<u>490,860</u>	<u>2,328,470</u>
<b>Net assets, end of year</b>	<u>\$ 969,330</u>	<u>\$ 1,427,684</u>	<u>\$ 490,860</u>	<u>\$ 2,887,874</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, 2016**

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
<b>Support and revenue</b>				
Grants and contributions	\$ 919,691	\$ 1,319,000	\$ 173,210	\$ 2,411,901
In-kind contributions	826,399	-	-	826,399
Royalties and contract income	304,000	-	-	304,000
Other	5,610	-	-	5,610
Investment income	175	12,892	-	13,067
Net assets released from restrictions	655,549	(655,549)	-	-
Total support	<u>2,711,424</u>	<u>676,343</u>	<u>173,210</u>	<u>3,560,977</u>
<b>Expenses</b>				
Program services	2,734,407	-	-	2,734,407
Management and general	409,009	-	-	409,009
Fundraising	269,265	-	-	269,265
Total expenses	<u>3,412,681</u>	<u>-</u>	<u>-</u>	<u>3,412,681</u>
<b>Change in net assets</b>	(701,257)	676,343	173,210	148,296
<b>Net assets, beginning of year</b>	<u>1,587,488</u>	<u>275,036</u>	<u>317,650</u>	<u>2,180,174</u>
<b>Net assets, end of year</b>	<u>\$ 886,231</u>	<u>\$ 951,379</u>	<u>\$ 490,860</u>	<u>\$ 2,328,470</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, 2017

	Program services	Management and general	Fundraising	Total
Accounting fees	\$ -	\$ 49,939	\$ -	\$ 49,939
Bad debt expense	-	-	50,000	50,000
Bank and credit card fees	5	333	2,772	3,110
Communications	5,751	831	1,955	8,537
Conference	7,970	501	-	8,471
Consultants	160,950	2,687	8,528	172,165
Depreciation	4,669	1,010	692	6,371
Dues and registrations	460	900	3,701	5,061
Employee benefits	50,138	10,257	16,928	77,323
Game development	458,839	-	-	458,839
Insurance	398	2,297	-	2,695
Licenses and fees	408	-	4,551	4,959
Marketing and promotion	43,857	-	318	44,175
Meals and entertainment	11,396	1,253	5,243	17,892
Occupancy	84,162	12,346	28,415	124,923
Office supplies and expenses	770	8,161	1,709	10,640
Payroll taxes	61,974	11,859	21,813	95,646
Postage and delivery	214	1,538	1,377	3,129
Printing and reproduction	5,802	3,416	2,680	11,898
Professional services	23,575	4,405	610	28,590
Recruiting	-	17,114	-	17,114
Salaries	876,260	144,153	297,213	1,317,626
Software licenses and services	16,357	297	4,014	20,668
Staff training	1,333	-	-	1,333
Stipend	3,050	-	-	3,050
Travel and lodging	48,532	6,332	15,690	70,554
Video production	18,000	-	-	18,000
Web development and services	30,586	40	2,944	33,570
Website amortization	109,220	-	-	109,220
	<u>2,024,676</u>	<u>279,669</u>	<u>471,153</u>	<u>2,775,498</u>
In-kind contributions				
Marketing and promotion	471,771	-	-	471,771
Legal services	185,980	18,616	-	204,596
Web maintenance	64,084	-	-	64,084
	<u>721,835</u>	<u>18,616</u>	<u>-</u>	<u>740,451</u>
<b>Total functional expenses</b>	<u><u>\$ 2,746,511</u></u>	<u><u>\$ 298,285</u></u>	<u><u>\$ 471,153</u></u>	<u><u>\$ 3,515,949</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, 2016**

	Program services	Management and general	Fundraising	Total
Accounting fees	\$ -	\$ 37,185	\$ -	\$ 37,185
Bank and credit card fees	415	3,202	56	3,673
Communications	10,929	1,894	1,748	14,571
Conference	5,124	245	-	5,369
Consultants	140,273	82,068	25,581	247,922
Depreciation	4,571	596	825	5,992
Dues and registrations	310	2,360	2,759	5,429
Employee benefits	47,672	8,830	7,627	64,129
Game development	481,111	-	-	481,111
Insurance	-	5,634	-	5,634
Licenses and fees	-	760	4,455	5,215
Marketing and promotion	37,989	-	-	37,989
Meals and entertainment	6,896	9,053	1,751	17,700
Occupancy	39,527	37,657	11,943	89,127
Office supplies and expenses	6,261	5,967	342	12,570
Payroll taxes	50,258	9,079	10,502	69,839
Postage and delivery	919	2,668	354	3,941
Printing and reproduction	3,119	5,493	2,096	10,708
Professional services	-	20,397	4,828	25,225
Program event	62,816	-	-	62,816
Recruiting	30,699	17,746	33	48,478
Salaries	721,352	126,698	185,212	1,033,262
Software licenses and services	15,391	-	795	16,186
Staff training	-	129	-	129
Stipend	700	500	-	1,200
Travel and lodging	53,801	16,201	2,481	72,483
Video production	9,209	1,850	-	11,059
Web development and services	53,427	-	1,506	54,933
Website amortization	142,407	-	-	142,407
	<u>1,925,176</u>	<u>396,212</u>	<u>264,894</u>	<u>2,586,282</u>
In-kind contributions				
Marketing and promotion	471,129	-	-	471,129
Legal services	311,348	12,797	4,371	328,516
Web maintenance	16,754	-	-	16,754
Travel	10,000	-	-	10,000
	<u>809,231</u>	<u>12,797</u>	<u>4,371</u>	<u>826,399</u>
<b>Total functional expenses</b>	<u><u>\$ 2,734,407</u></u>	<u><u>\$ 409,009</u></u>	<u><u>\$ 269,265</u></u>	<u><u>\$ 3,412,681</u></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,

**2017****2016****Cash flows from operating activities**

Change in net assets	\$	559,404	\$	148,296
Adjustments to reconcile change in net assets to net cash from operating activities				
Website amortization		109,220		142,407
Depreciation		6,371		5,992
Receipt of donated securities		(149,505)		(100,676)
Proceeds from sales of donated securities		149,505		100,676
Unrealized gain on investments		(24,231)		(10,118)
(Increase) decrease in operating assets				
Prepaid expenses		(33,155)		(22,300)
Grants and contributions receivable, net		8,813		(335,985)
Accounts receivable		66,582		(149,500)
Security deposit		-		(4,067)
Increase (decrease) in operating liabilities				
Accounts payable and accrued expenses		39,923		(22,033)
Accrued payroll and related liabilities		46,073		55,713
Deferred rent		3,366		1,403
Net cash provided by (used in) operating activities		<u>782,366</u>		<u>(190,192)</u>

**Cash flows from investing activities**

Expenditures for website		(2,416)		(14,171)
Expenditures for property and equipment		(4,490)		(7,069)
Purchase of investments		<u>(86,160)</u>		<u>(402,588)</u>
Net cash used in investing activities		<u>(93,066)</u>		<u>(423,828)</u>

**Net change in cash and cash equivalents**

689,300 (614,020)

**Cash and cash equivalents, beginning of year**920,187 1,534,207**Cash and cash equivalents, end of year**\$ 1,609,487 \$ 920,187**Supplemental disclosure of cash flow information**

## Noncash transactions

Donated securities	\$	<u>149,505</u>	\$	<u>100,676</u>
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The accompanying independent auditor's report and notes are an integral part of the financial statements.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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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 government, public policy, and law.

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. iCivics' 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 and restricted cash consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Checking	\$ 219,204	\$ 161,836
Savings	1,390,283	758,351
	<u>\$ 1,609,487</u>	<u>\$ 920,187</u>

See independent auditor's report.

# **iCivics, Inc.**

## **Notes to Financial Statements June 30, 2017 and 2016**

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### **2. Significant accounting policies (continued)**

#### **Cash (continued)**

Cash is maintained at an institution covered by FDIC. At year-end and throughout the year, the Organization's cash balances may exceed federally insured limit of \$250,000 per institution. The Organization has not experienced any losses on its cash and management does not believe this results in any significant credit risk. At June 30, 2017, cash balances exceeded the federally insured limits by \$1,423,473.

#### **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 statements 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. Grants, contributions, and accounts receivable are measured at net realizable value and are net of an allowance of \$78,465 and \$200,000 as of June 30, 2017 and 2016, respectively.

#### **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, 2017 and 2016, 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 statements 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 7 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 based on an estimate of time spent by personnel.

**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 expenses, and accrued payroll and related liabilities. The carrying value of these financial assets and liabilities approximates fair value because of 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.

Notes to Financial Statements  
June 30, 2017 and 2016

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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 comparable state provisions and is classified as an organization other than a private foundation. For the years ended June 30, 2017 and 2016, 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 Internal Revenue Service as well as the District of Columbia and Massachusetts 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 fiscal years ended June 30, 2014 through June 30, 2017.

Recently adopted accounting pronouncement

During the year ended June 30, 2016, the Organization adopted Accounting Standards Update No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities (NFP) Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*, which requires an NFP to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that, upon receipt, were directed without any NFP-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated securities should be classified as cash flows from investing activities by the NFP. The adoption of ASU 2012-05 did not have a material financial impact on the Organization's financial position, statements of activities, or cash flows.

3. Investments

Investment income for the years ended June 30, 2017 and 2016 consisted of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividend income	\$ 11,660	\$ 2,949
Unrealized gains	24,231	10,118
	<u>\$ 35,891</u>	<u>\$ 13,067</u>

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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### 3. Investments (continued)

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 of the following securities measured at fair value on a recurring basis as of June 30, 2017:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 14,649	\$ -	\$ -	\$ 14,649
Investment grade fixed income index funds	256,210	-	-	256,210
Fixed income high yield bond fund	35,710	-	-	35,710
U.S. equity index funds	135,778	-	-	135,778
International equity index funds	80,750	-	-	80,750
	<u>\$ 523,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 523,097</u>

Investments consist of the following securities measured at fair value on a recurring basis as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 109,126	\$ -	\$ -	\$ 109,126
Investment grade fixed income index funds	153,595	-	-	153,595
Fixed income high yield bond fund	22,022	-	-	22,022
U.S. equity index funds	82,836	-	-	82,836
International equity index funds	45,127	-	-	45,127
	<u>\$ 412,706</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 412,706</u>

### 4. Grants and contributions receivable

Grants and contributions receivable as of June 30, 2017 are collectible over a one- to seven-year period and have been discounted at a rate of 1.24 percent to 2.14 percent (depending on the year due) to record the present value of future receipts. Grants and contributions receivable as of June 30, 2016 are collectible over a one- to eight-year period and have been discounted at a rate of 0.45 percent to 1.49 percent (depending on the year due) to record the present value of future receipts. The discount rate is based on the daily treasury yield curve rates. The discount as of June 30, 2017 and 2016 was \$33,041 and \$26,192.

Management has provided for potential uncollectible amounts through an allowance for doubtful accounts of \$50,965 and \$100,000 as of June 30, 2017 and 2016, respectively.

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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### 4. Grants and contributions receivable (continued)

A summary of pledges receivable as of June 30, 2017 and 2016 is as follows:

	<u>2017</u>	<u>2016</u>
Grants and contributions due in		
Less than one year	\$ 375,178	\$ 319,177
One to five years	281,000	328,000
More than five years	<u>180,000</u>	<u>240,000</u>
	836,178	887,177
Allowance for doubtful accounts	(50,965)	(100,000)
Present value discount	<u>(33,041)</u>	<u>(26,192)</u>
	752,172	760,985
Less: current portion	<u>(375,178)</u>	<u>(356,500)</u>
Long-term portion	<u>\$ 376,994</u>	<u>\$ 404,485</u>

### 5. Property and equipment

Property and equipment consisted of office equipment. A summary of information related to 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, 2017	<u>\$ 40,130</u>	<u>\$ 24,398</u>	<u>\$ 15,732</u>	<u>\$ 6,371</u>	5
June 30, 2016	<u>\$ 35,640</u>	<u>\$ 18,027</u>	<u>\$ 17,613</u>	<u>\$ 5,992</u>	5

### 6. Website

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

	<u>Capitalized cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Amortization expense</u>	<u>Useful life (months)</u>
June 30, 2017	<u>\$ 623,366</u>	<u>\$ 601,474</u>	<u>\$ 21,892</u>	<u>\$ 109,220</u>	36
June 30, 2016	<u>\$ 620,950</u>	<u>\$ 492,254</u>	<u>\$ 128,696</u>	<u>\$ 142,407</u>	36

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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### 7. In-kind contributions

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

	<u>2017</u>	<u>2016</u>
Legal services	\$ 204,596	\$ 328,516
Marketing and promotion	471,771	471,129
Web maintenance	64,084	16,754
Travel services	-	10,000
	<u>\$ 740,451</u>	<u>\$ 826,399</u>

The donated legal services supported all functions of the Organization, as detailed in the accompanying statements of functional expenses. Additionally, the Organization received donations of travel services and web maintenance supporting 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 up to a specified amount per month of free AdWords advertising on Google.com. The amount varies month to month based on the amount of AdWords advertising used. The maximum amount for the years ended June 30, 2017 and 2016 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.

iCivics, Inc. is also a recipient of a grant from Amazon that provides web credits to cover the Organization's web hosting services.

Additionally, the Organization has up to 140 volunteers, including educator volunteers who assist across the country who help ensure that iCivics' resources meet classroom needs and are reflective of state curriculum requirements. 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.

### 8. Conditional promises receivable

As of June 30, 2017, the Organization had two conditional promises receivable totaling \$25,500 that are conditioned upon specific milestones. As of June 30, 2016, the Organization had two conditional promises receivable totaling \$36,000 that 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, 2017 and 2016

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### 9. Temporarily restricted net assets

Net assets are temporarily restricted for specific purposes or future periods. Temporarily restricted net assets were as follows for the year ended June 30, 2017:

	<u>6/30/2016</u>	<u>Additions</u>	<u>Releases</u>	<u>6/30/2017</u>
Program activities:				
Professional development	\$ 22,442	\$ -	\$ (22,442)	\$ -
Game development, digital learning tools	26,500	550,000	(130,710)	445,790
Website and branding	10,744	-	(10,744)	-
Strategic projects	-	325,000	(102,213)	222,787
Earnings from Sandra Day O'Connor				
Endowment Fund	12,516	35,414	-	47,930
Restricted for future periods	879,177	300,000	(468,000)	711,177
	<u>\$ 951,379</u>	<u>\$ 1,210,414</u>	<u>\$ (734,109)</u>	<u>\$ 1,427,684</u>

Temporarily restricted net assets were as follows for the year ended June 30, 2016:

	<u>6/30/2015</u>	<u>Additions</u>	<u>Releases</u>	<u>6/30/2016</u>
Program activities:				
MacArthur Award for Creative & Effective				
Institutions - development capacity	\$ 150,000	\$ -	\$ (150,000)	\$ -
Professional development	25,000	25,000	(27,558)	22,442
Game development, digital learning tools	100,000	126,500	(200,000)	26,500
Website and branding	-	15,000	(4,256)	10,744
Earnings from Sandra Day O'Connor				
Endowment Fund	36	12,892	(412)	12,516
Restricted for future periods	-	1,152,500	(273,323)	879,177
	<u>\$ 275,036</u>	<u>\$ 1,331,892</u>	<u>\$ (655,549)</u>	<u>\$ 951,379</u>

See independent auditor's report.

**10. MacArthur Award for Creative & 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 were expended in FY 2016 and are reflected in temporarily restricted net assets for that year. Subsequent to year end, the board approved the expenditure of the remaining balance of \$190,000 to support earned revenue and gift operation efforts.

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, 2016, the designated funds were fully expended for these purposes. Subsequent to year end, the board approved the expenditure of the remaining balance of \$190,000 to support earned revenue and major gift operation efforts.

**11. 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. During the year ended June 30, 2017, contributions of \$140,000 were received, and no funds were appropriated for expenditure. During the year ended June 30, 2016, contributions of \$374,283 were received, and \$100,000 was appropriated for expenditure.

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. Donors contribute to the Sandra Day O'Connor Endowment Fund with the intent to maintain the funds in a segregated permanent endowment fund. Additional information related to the endowment fund is contained in Note 12.

**12. Endowment funds**

The iCivics, Inc. endowment funds consist of one permanently restricted fund (the Fund), as detailed in Note 11. As required by GAAP, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The long-term portion of investments and cash represent funds held in the permanently restricted endowment. The current portion of investments represent endowment earnings held as part of temporarily restricted net assets.

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.

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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### 12. Endowment funds (continued)

#### 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.

#### 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, 2017:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Sandra Day O'Connor Endowment Fund	\$ -	\$ 47,930	\$ 490,860	\$ 538,790

The net assets consisted of the following as of June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds				
Sandra Day O'Connor Endowment Fund	\$ -	\$ 12,516	\$ 490,860	\$ 503,376

See independent auditor's report.

**iCivics, Inc.**

**Notes to Financial Statements  
June 30, 2017 and 2016**

**12. Endowment funds (continued)**

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, June 30, 2015</b>	\$ -	\$ 36	\$ 317,650	\$ 317,686
Investment return				
Investment income	\$ -	\$ 2,774	\$ -	\$ 2,774
Net appreciation	-	10,118	-	10,118
Investment and bank fees	-	(412)	-	(412)
Total investment return	-	12,480	-	12,480
Contributions to perpetual endowment	-	-	173,210	173,210
Amounts appropriated for expenditure	-	-	-	-
<b>Endowment funds, June 30, 2016</b>	<b>\$ -</b>	<b>\$ 12,516</b>	<b>\$ 490,860</b>	<b>\$ 503,376</b>
Investment return				
Investment income	\$ -	\$ 11,184	\$ -	\$ 11,184
Net appreciation	-	24,230	-	24,230
Investment and bank fees	-	-	-	-
Total investment return	-	35,414	-	35,414
Contributions to perpetual endowment	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
<b>Endowment funds, June 30, 2017</b>	<b>\$ -</b>	<b>\$ 47,930</b>	<b>\$ 490,860</b>	<b>\$ 538,790</b>

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, 2017 and 2016.

See independent auditor's report.

# iCivics, Inc.

## Notes to Financial Statements June 30, 2017 and 2016

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### 13. Commitments

In October 2012, the Organization began a five-year lease for office space in the District of Columbia. The current rent is \$4,598 per month. The lease ended September 30, 2017, and was not subsequently renewed.

In December 2015, the Organization began a lease for office space in Massachusetts through November 30, 2020. The current monthly base rent is \$4,208. The rental expense is recorded on a straight-line basis over the life of the lease in the amount of \$4,348 per month. As of June 30, 2017 and 2016, the deferred rent credit was \$4,769 and \$1,403, respectively.

The rental expense for the years ended June 30, 2017 and 2016 was \$112,874 and \$75,576, respectively. Minimum future lease payments are as follows for the years ended June 30:

2018	\$	65,266
2019		53,155
2020		54,838
2021		23,141
	\$	<u>196,400</u>

During the years ended June 30, 2017 and 2016, the Organization subleased a portion of its D.C. office space to unrelated organizations. Sublease payments received during the years ended June 30, 2017 and 2016 totaled \$36,027 and \$3,000, respectively, and were recorded in other income on the accompanying statements of activities. Future minimum sublease income is \$10,809 during the year ending June 30, 2018.

### 14. Retirement plan

The Organization adopted a 403(b) plan during the year ended June 30, 2017. Employees are eligible to participate in the Plan immediately upon hire. The Organization has the discretion to make matching and non-elective contributions on an annual basis; no such contributions were made during the year ended June 30, 2017.

### 15. Line of credit

The Organization has a line of credit available through January 31, 2018 in the amount of \$250,000. No amounts were drawn as of June 30, 2017.

### 16. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2017 through November 14, 2017, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. No events have occurred that require adjustment to, or disclosure in, the financial statements.

See independent auditor's report.