

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017



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, 2018 and 2017, 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, 2018 and 2017, 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 6, 2018

iCivics, Inc.

Statements of Financial Position June 30,

| | 2018 | 2017 |
|--|----------------------------|----------------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 2,273,491 | \$ 1,593,794 |
| Prepaid expenses | 82,486 | 71,290 |
| Accounts receivable-net, current portion | 3,246 | 83,418 |
| Grants and contributions receivable-net, current portion | 129,752 | 375,178 |
| Investments, current portion | 72,352 | 47,930 |
| | <u>2,561,327</u> | <u>2,171,610</u> |
| Noncurrent assets | | |
| Grants and contributions receivable-net, long-term portion | 256,885 | 376,994 |
| Investments restricted for permanent endowment | 475,151 | 475,167 |
| Cash restricted for permanent endowment | 15,709 | 15,693 |
| Security deposit | 4,067 | 8,233 |
| | <u>751,812</u> | <u>876,087</u> |
| Intangible assets | | |
| Website, net of accumulated amortization | 5,663 | 21,892 |
| Domain name | 26,000 | 26,000 |
| | <u>31,663</u> | <u>47,892</u> |
| Property and equipment, net of accumulated depreciation | <u>11,162</u> | <u>15,732</u> |
| Total assets | <u>\$ 3,355,964</u> | <u>\$ 3,111,321</u> |
| Liabilities and net assets | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 39,830 | \$ 73,464 |
| Accrued payroll and related liabilities | 143,717 | 145,214 |
| Deferred rent, current portion | 982 | - |
| | <u>184,529</u> | <u>218,678</u> |
| Noncurrent liabilities | | |
| Deferred rent | 4,067 | 4,769 |
| Total liabilities | <u>188,596</u> | <u>223,447</u> |
| Net assets | | |
| Unrestricted | 673,354 | 354,922 |
| Unrestricted, board designated MacArthur Venture Fund | - | 190,000 |
| Unrestricted, board designated Sandra Day O'Connor Growth Fund | 559,993 | 424,408 |
| Temporarily restricted | 1,443,161 | 1,427,684 |
| Permanently restricted | 490,860 | 490,860 |
| Total net assets | <u>3,167,368</u> | <u>2,887,874</u> |
| Total liabilities and net assets | <u>\$ 3,355,964</u> | <u>\$ 3,111,321</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, 2018**

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and revenue | | | | |
| Grants and contributions | \$ 2,111,054 | \$ 1,050,000 | \$ - | \$ 3,161,054 |
| In-kind contributions | 660,297 | - | - | 660,297 |
| Royalties and contract income | 48,925 | - | - | 48,925 |
| Other | 23,055 | - | - | 23,055 |
| Investment income | 1,846 | 24,422 | - | 26,268 |
| Net assets released from restrictions | 1,058,945 | (1,058,945) | - | - |
| Total support | <u>3,904,122</u> | <u>15,477</u> | <u>-</u> | <u>3,919,599</u> |
| Expenses | | | | |
| Program services | 2,924,539 | - | - | 2,924,539 |
| Management and general | 285,384 | - | - | 285,384 |
| Fundraising | 430,182 | - | - | 430,182 |
| Total expenses | <u>3,640,105</u> | <u>-</u> | <u>-</u> | <u>3,640,105</u> |
| Change in net assets | 264,017 | 15,477 | - | 279,494 |
| Net assets, beginning of year | <u>969,330</u> | <u>1,427,684</u> | <u>490,860</u> | <u>2,887,874</u> |
| Net assets, end of year | <u>\$ 1,233,347</u> | <u>\$ 1,443,161</u> | <u>\$ 490,860</u> | <u>\$ 3,167,368</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, 2017**

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|---------------------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Support and revenue | | | | |
| 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> |
| Expenses | | | | |
| 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> |
| Change in net assets | 83,099 | 476,305 | - | 559,404 |
| Net assets, beginning of year | <u>886,231</u> | <u>951,379</u> | <u>490,860</u> | <u>2,328,470</u> |
| Net assets, end of year | <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 Functional Expenses
for the year ended June 30, 2018**

| | Program services | Management and general | Fundraising | Total |
|----------------------------------|----------------------------|---------------------------|--------------------------|----------------------------|
| Accounting fees | \$ - | \$ 51,037 | \$ - | \$ 51,037 |
| Bad debt expense | - | 18,035 | - | 18,035 |
| Bank and credit card fees | 26 | 4,615 | 482 | 5,123 |
| Communications | 1,417 | 6,202 | 22 | 7,641 |
| Conference | 8,776 | 1,116 | 458 | 10,350 |
| Consultants | 329,631 | 12,820 | 5,530 | 347,981 |
| Depreciation | 4,403 | 996 | 667 | 6,066 |
| Dues and registrations | 966 | 369 | 1,750 | 3,085 |
| Employee benefits | 52,317 | 7,926 | 19,024 | 79,267 |
| Game development | 559,328 | - | - | 559,328 |
| Insurance | - | 2,050 | - | 2,050 |
| Licenses and fees | - | 603 | 7,175 | 7,778 |
| Marketing and promotion | 43,372 | 215 | 1,070 | 44,657 |
| Meals and entertainment | 21,106 | 2,435 | 2,799 | 26,340 |
| Occupancy | 45,338 | 3,319 | 16,213 | 64,870 |
| Office supplies and expenses | 5,601 | 2,093 | 644 | 8,338 |
| Payroll taxes | 69,212 | 10,657 | 25,322 | 105,191 |
| Postage and delivery | 1,749 | 418 | 633 | 2,800 |
| Printing and reproduction | 13,577 | 1,835 | 2,962 | 18,374 |
| Professional services | 40,970 | 2,206 | 5 | 43,181 |
| Recruiting | 7,175 | 7,175 | 6,150 | 20,500 |
| Salaries | 911,405 | 141,400 | 327,760 | 1,380,565 |
| Software licenses and services | 20,207 | - | 3,057 | 23,264 |
| Staff training | - | 25 | - | 25 |
| Stipend | 1,500 | - | - | 1,500 |
| Travel and lodging | 73,487 | 5,825 | 7,710 | 87,022 |
| Video production | 22,726 | - | - | 22,726 |
| Web development and services | 15,597 | 139 | 749 | 16,485 |
| Website amortization | 16,229 | - | - | 16,229 |
| | <u>2,266,115</u> | <u>283,511</u> | <u>430,182</u> | <u>2,979,808</u> |
| In-kind contributions | | | | |
| Marketing and promotion | 418,999 | - | - | 418,999 |
| Legal services | 187,528 | 1,873 | - | 189,401 |
| Web maintenance | 51,897 | - | - | 51,897 |
| | <u>658,424</u> | <u>1,873</u> | <u>-</u> | <u>660,297</u> |
| Total functional expenses | <u><u>\$ 2,924,539</u></u> | <u><u>\$ 285,384</u></u> | <u><u>\$ 430,182</u></u> | <u><u>\$ 3,640,105</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, 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> |
| Total functional expenses | <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.**Statements of Cash Flows
for the years ended June 30,****2018****2017****Cash flows from operating activities**

| | | | | |
|---|----|----------------|----|----------------|
| Change in net assets | \$ | 279,494 | \$ | 559,404 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | | | |
| Website amortization | | 16,229 | | 109,220 |
| Depreciation | | 6,066 | | 6,371 |
| Receipt of donated securities | | (20,585) | | (149,505) |
| Proceeds from sales of donated securities | | 20,585 | | 149,505 |
| Unrealized gain on investments | | (10,636) | | (24,231) |
| Loss on disposal of assets | | 189 | | - |
| (Increase) decrease in operating assets | | | | |
| Prepaid expenses | | (11,196) | | (33,155) |
| Grants and contributions receivable, net | | 365,535 | | 8,813 |
| Accounts receivable | | 80,172 | | 66,582 |
| Security deposit | | 4,166 | | - |
| Increase (decrease) in operating liabilities | | | | |
| Accounts payable and accrued expenses | | (33,634) | | 39,923 |
| Accrued payroll and related liabilities | | (1,497) | | 46,073 |
| Deferred rent | | 280 | | 3,366 |
| Net cash provided by operating activities | | <u>695,168</u> | | <u>782,366</u> |

Cash flows from investing activities

| | | | | |
|---|--|-----------------|--|-----------------|
| Expenditures for website | | - | | (2,416) |
| Expenditures for property and equipment | | (1,685) | | (4,490) |
| Purchase of investments | | <u>(13,770)</u> | | <u>(86,160)</u> |
| Net cash used in investing activities | | <u>(15,455)</u> | | <u>(93,066)</u> |

Net change in cash and cash equivalents

679,713

689,300

Cash and cash equivalents, beginning of year1,609,487920,187**Cash and cash equivalents, end of year**\$ 2,289,200\$ 1,609,487**Supplemental disclosure of cash flow information**

Noncash transactions

Donated securities

\$ 20,585\$ 149,505

The accompanying independent auditor's report and notes are an integral part of the financial statements.

iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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. The Organization's 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 donations 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>2018</u> | <u>2017</u> |
|----------|---------------------|---------------------|
| Checking | \$ 156,544 | \$ 219,204 |
| Savings | <u>2,132,656</u> | <u>1,390,283</u> |
| | <u>\$ 2,289,200</u> | <u>\$ 1,609,487</u> |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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 the 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, 2018 and 2017, cash balances exceeded the federally insured limits by \$2,039,986 and \$1,423,473, respectively.

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 \$69,000 and \$78,465 as of June 30, 2018 and 2017, 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, 2018 and 2017, 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.

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. During the year ended June 30, 2018, the Organization paid transportation benefits for employees that were subject to unrelated business income tax beginning January 1, 2018. No provision for income taxes has been included in these financial statements due to the insignificance of the tax that is owed. There was no unrelated business income for the year ended June 30, 2017.

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, 2015 through June 30, 2018.

New accounting pronouncements

In August 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 represents phase 1 of FASB's Not-for-Profit financial reporting project and reduces the number of net asset classes, requires expense presentation by functional and natural classification, requires quantitative and qualitative information on liquidity, retains the option to present the cash flow statement on a direct or indirect method, and includes various other additional disclosure requirements. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017 with retrospective application. Early adoption of ASU 2016-14 is permitted. The requirements of this statement are effective for the Organization for the year ending June 30, 2019. The Organization has not evaluated the impact of this statement.

The FASB has issued Accounting Standards Update (ASU) 2014-09 (as amended by ASU 2015-14), which provides a single comprehensive accounting standard for revenue recognition for contracts with customers and supersedes current industry-specific guidance. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2019. The Organization has not evaluated the impact of this statement.

The FASB has issued ASU 2016-02, which requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by leases with terms greater than 12 months. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2019. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2020. The Organization has not evaluated the impact of this statement.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

3. Investments

Investment income for the years ended June 30, 2018 and 2017 consisted of the following:

| | <u>2018</u> | <u>2017</u> |
|------------------------------|------------------|------------------|
| Interest and dividend income | \$ 15,632 | \$ 11,660 |
| Unrealized gains | <u>10,636</u> | <u>24,231</u> |
| | <u>\$ 26,268</u> | <u>\$ 35,891</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 of the following securities measured at fair value on a recurring basis as of June 30, 2018:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|-------------------|
| Cash and money market funds | \$ 28,231 | \$ - | \$ - | \$ 28,231 |
| Investment grade fixed income index funds | 247,944 | - | - | 247,944 |
| Fixed income high yield bond fund | 34,372 | - | - | 34,372 |
| U.S. equity index funds | 152,915 | - | - | 152,915 |
| International equity index funds | <u>84,041</u> | <u>-</u> | <u>-</u> | <u>84,041</u> |
| | <u>\$ 547,503</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 547,503</u> |

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

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|-------------------|
| 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 | <u>80,750</u> | <u>-</u> | <u>-</u> | <u>80,750</u> |
| | <u>\$ 523,097</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 523,097</u> |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

4. Grants and contributions receivable

Grants and contributions receivable as of June 30, 2018 are collectible over a one- to seven-year period and have been discounted at an annual discount rate of 2.33 percent to 2.81 percent (depending on the year due) to record the present value of future receipts. Grants and contributions receivable as of June 30, 2017 are collectible over a one- to seven-year period and have been discounted at an annual discount rate of 1.24 percent to 2.14 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, 2018 and 2017 was \$9,115 and \$33,041.

Management has provided for potential uncollectible amounts through an allowance for doubtful accounts of \$69,000 and \$50,965 as of June 30, 2018 and 2017, respectively.

A summary of pledges receivable as of June 30, 2018 and 2017 is as follows:

| | <u>2018</u> | <u>2017</u> |
|---------------------------------|-------------------|-------------------|
| Grants and contributions due in | | |
| Less than one year | \$ 129,752 | \$ 375,178 |
| One to five years | 235,000 | 281,000 |
| More than five years | <u>100,000</u> | <u>180,000</u> |
| | 464,752 | 836,178 |
| Allowance for doubtful accounts | (69,000) | (50,965) |
| Present value discount | <u>(9,115)</u> | <u>(33,041)</u> |
| | 386,637 | 752,172 |
| Less: current portion | <u>(129,752)</u> | <u>(375,178)</u> |
| Long-term portion | <u>\$ 256,885</u> | <u>\$ 376,994</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, 2018 | <u>\$ 40,552</u> | <u>\$ 29,390</u> | <u>\$ 11,162</u> | <u>\$ 6,066</u> | 5 |
| June 30, 2017 | <u>\$ 40,130</u> | <u>\$ 24,398</u> | <u>\$ 15,732</u> | <u>\$ 6,371</u> | 5 |

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iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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, 2018 | <u>\$ 623,366</u> | <u>\$ 617,703</u> | <u>\$ 5,663</u> | <u>\$ 16,229</u> | 36 |
| June 30, 2017 | <u>\$ 623,366</u> | <u>\$ 601,474</u> | <u>\$ 21,892</u> | <u>\$ 109,220</u> | 36 |

7. In-kind contributions

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

| | <u>2018</u> | <u>2017</u> |
|-------------------------|-------------------|-------------------|
| Legal services | \$ 189,401 | \$ 204,596 |
| Marketing and promotion | 418,999 | 471,771 |
| Web maintenance | 51,897 | 64,084 |
| | <u>\$ 660,297</u> | <u>\$ 740,451</u> |

The donated legal services supported program and general functions of the Organization, as detailed in the accompanying statements of functional expenses. Additionally, the Organization received donations of 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, 2018 and 2017 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 199 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.

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iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

8. Conditional promises receivable

As of June 30, 2018, the Organization had one conditional promise to give totaling \$500,000 that was conditioned upon a donor-advised fund's approval of the gift. As of June 30, 2017, the Organization had two conditional promises to give totaling \$25,500 that were conditioned upon specific milestones. In accordance with generally accepted accounting principles, conditional promises to give are not recorded until the specified milestones are reached.

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, 2018:

| | <u>6/30/2017</u> | <u>Additions</u> | <u>Releases</u> | <u>6/30/2018</u> |
|--|---------------------|---------------------|-----------------------|---------------------|
| Program activities: | | | | |
| Game development, digital learning tools | \$ 445,790 | \$ 45,000 | \$ (430,733) | \$ 60,057 |
| Strategic projects | 222,787 | 970,000 | (311,535) | 881,252 |
| Earnings from Sandra Day O'Connor | | | | |
| Endowment Fund | 47,930 | 24,422 | - | 72,352 |
| Restricted for future periods | <u>711,177</u> | <u>35,000</u> | <u>(316,677)</u> | <u>429,500</u> |
| | <u>\$ 1,427,684</u> | <u>\$ 1,074,422</u> | <u>\$ (1,058,945)</u> | <u>\$ 1,443,161</u> |

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 | <u>879,177</u> | <u>300,000</u> | <u>(468,000)</u> | <u>711,177</u> |
| | <u>\$ 951,379</u> | <u>\$ 1,210,414</u> | <u>\$ (734,109)</u> | <u>\$ 1,427,684</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.

The remaining \$600,000 was placed in the MacArthur Venture Fund, which 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 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 funds were fully expended for these purposes. During the year ended June 30, 2018, the board approved the expenditure of the remaining balance of \$190,000 to support earned revenue and major gift operation efforts. As of June 30, 2018, the funds were fully expended for these purposes.

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, 2018, contributions of \$135,585 were received, and no funds were appropriated for expenditure. During the year ended June 30, 2017, contributions of \$140,000 were received, and no funds were 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 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.

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iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

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, 2018:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| Donor-restricted endowment funds | | | | |
| Sandra Day O'Connor Endowment Fund | \$ - | \$ 72,352 | \$ 490,860 | \$ 563,212 |

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 |

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iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

12. Endowment funds (continued)

Changes in endowment funds

The net activity consisted of the following:

| | <u>Unrestricted</u> | <u>Temporarily restricted</u> | <u>Permanently restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|-------------------|
| Endowment funds as of June 30, 2016 | <u>\$ -</u> | <u>\$ 12,516</u> | <u>\$ 490,860</u> | <u>\$ 503,376</u> |
| 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 | - | - | - | - |
| Endowment funds as of June 30, 2017 | <u>\$ -</u> | <u>\$ 47,930</u> | <u>\$ 490,860</u> | <u>\$ 538,790</u> |
| Investment return | | | | |
| Investment income | \$ - | \$ 13,786 | \$ - | \$ 13,786 |
| Net appreciation | - | 10,636 | - | 10,636 |
| Investment and bank fees | - | - | - | - |
| Total investment return | - | 24,422 | - | 24,422 |
| Contributions to perpetual endowment | - | - | - | - |
| Amounts appropriated for expenditure | - | - | - | - |
| Endowment funds as of June 30, 2018 | <u>\$ -</u> | <u>\$ 72,352</u> | <u>\$ 490,860</u> | <u>\$ 563,212</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, 2018 and 2017.

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iCivics, Inc.

Notes to Financial Statements June 30, 2018 and 2017

13. Commitments

In October 2012, the Organization began a five-year lease for office space in the District of Columbia. The rent was \$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, 2018 and 2017, the deferred rent credit was \$5,049 and \$4,769, respectively.

The rental expense for the years ended June 30, 2018 and 2017 was \$62,399 and \$112,874, respectively. Minimum future lease payments are as follows for the years ended June 30:

| | |
|------|-------------------|
| 2019 | \$ 53,155 |
| 2020 | 54,838 |
| 2021 | 23,141 |
| | <u>\$ 131,134</u> |

During the years ended June 30, 2018 and 2017, the Organization subleased a portion of its D.C. office space to unrelated organizations. Sublease payments received during the years ended June 30, 2018 and 2017 totaled \$10,808 and \$36,027, respectively, and were recorded in other income on the accompanying statements of activities. The sublease also ended on September 30, 2017.

14. Retirement plan

The Organization adopted a 403(b) plan during the year ended June 30, 2017. Eligible employees can 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 years ended June 30, 2018 and 2017.

15. Line of credit

The Organization has a line of credit available through January 31, 2019 in the amount of \$250,000. The line bears an interest rate equal to the LIBOR daily floating rate plus 2.80 percentage points. No amounts were drawn as of June 30, 2018 and 2017.

16. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2018 through November 6, 2018, 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.