

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019



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, 2020 and 2019, 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, 2020 and 2019, 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 17, 2020

iCivics, Inc.

Statements of Financial Position
June 30,

2020

2019

Assets

Current assets

Cash	\$ 3,518,319	\$ 2,345,585
Prepaid expenses	55,287	13,020
Accounts receivable	27,696	35,855
Grants and contributions receivable-net, current portion	591,302	737,320
Investments, current portion	143,339	111,235
	<u>4,335,943</u>	<u>3,243,015</u>

Noncurrent assets

Grants and contributions receivable-net, long-term portion	328,142	176,008
Investments restricted for permanent endowment	474,785	474,919
Cash restricted for permanent endowment	16,075	15,936
Security deposit	4,067	4,067
	<u>823,069</u>	<u>670,930</u>

Intangible assets

Website, net of accumulated amortization	-	134
Domain name	26,000	26,000
	<u>26,000</u>	<u>26,134</u>

Property and equipment, net

	9,698	10,315
Total assets	<u>\$ 5,194,710</u>	<u>\$ 3,950,394</u>

Liabilities and net assets

Current liabilities

Accounts payable and accrued expenses	\$ 85,743	\$ 200,329
Accrued payroll and related liabilities	268,948	175,827
Deferred revenue	10,000	-
Paycheck Protection Program loan, current portion	192,119	-
Deferred rent, current portion	1,964	2,665
	<u>558,774</u>	<u>378,821</u>

Noncurrent liabilities

Paycheck Protection Program loan	151,115	-
Deferred rent	-	1,683
Total liabilities	<u>709,889</u>	<u>380,504</u>

Net assets

Without donor restrictions		
Undesignated	435,211	1,089,302
Board-designated for Sandra Day O'Connor Growth Fund	595,993	575,993
Board-designated for Sandra Day O'Connor Growth Fund 2020-25	1,150,000	-
With donor restrictions		
Purpose restrictions	1,812,757	1,413,735
Perpetual in nature	490,860	490,860
Total net assets	<u>4,484,821</u>	<u>3,569,890</u>
Total liabilities and net assets	<u>\$ 5,194,710</u>	<u>\$ 3,950,394</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, 2020**

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Grants and contributions	\$ 4,255,113	\$ 1,225,000	\$ 5,480,113
In-kind contributions	825,618	-	825,618
Royalties and other contract income	142,268	-	142,268
Publication sales and shipping revenue	24,669	-	24,669
Investment income	17,048	32,104	49,152
Net assets released from restrictions	858,082	(858,082)	-
Total support and revenue	<u>6,122,798</u>	<u>399,022</u>	<u>6,521,820</u>
Expenses			
Civic education curriculum	4,568,197	-	4,568,197
Management and general	463,589	-	463,589
Fundraising	575,103	-	575,103
Total expenses	<u>5,606,889</u>	<u>-</u>	<u>5,606,889</u>
Change in net assets	515,909	399,022	914,931
Net assets, beginning of year	<u>1,665,295</u>	<u>1,904,595</u>	<u>3,569,890</u>
Net assets, end of year	<u>\$ 2,181,204</u>	<u>\$ 2,303,617</u>	<u>\$ 4,484,821</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, 2019**

	Without donor restrictions	With donor restrictions	Total
Support and revenue			
Grants and contributions	\$ 3,274,331	\$ 965,000	\$ 4,239,331
In-kind contributions	972,532	-	972,532
Royalties and other contract income	91,879	-	91,879
Publication sales and shipping revenue	26,060	-	26,060
Investment income	29,621	38,883	68,504
Net assets released from restrictions	1,033,309	(1,033,309)	-
Total support and revenue	<u>5,427,732</u>	<u>(29,426)</u>	<u>5,398,306</u>
Expenses			
Civic education curriculum	4,087,517	-	4,087,517
Management and general	476,019	-	476,019
Fundraising	432,248	-	432,248
Total expenses	<u>4,995,784</u>	<u>-</u>	<u>4,995,784</u>
Change in net assets	431,948	(29,426)	402,522
Net assets, beginning of year	<u>1,233,347</u>	<u>1,934,021</u>	<u>3,167,368</u>
Net assets, end of year	<u>\$ 1,665,295</u>	<u>\$ 1,904,595</u>	<u>\$ 3,569,890</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, 2020**

	Civic education curriculum	Management and general	Fundraising	Total
Accounting fees	\$ -	\$ 68,270	\$ -	\$ 68,270
Bad debt expense	-	14,320	-	14,320
Bank and credit card fees	599	4,559	314	5,472
Communications	2,063	5,905	12	7,980
Conference	10,227	-	-	10,227
Consultants	682,668	46,158	101,465	830,291
Depreciation	3,527	804	371	4,702
Dues and subscriptions	3,407	-	1,043	4,450
Employee benefits	82,668	6,069	22,069	110,806
Game development	1,016,213	-	-	1,016,213
Grants	22,000	-	-	22,000
Insurance	176	2,723	-	2,899
Licenses and fees	-	360	3,356	3,716
Marketing and promotion	68,919	-	1,501	70,420
Meals and entertainment	49,836	1,609	13,056	64,501
Occupancy	45,131	8,409	15,081	68,621
Office supplies and expenses	6,446	6,359	1,443	14,248
Payroll taxes	110,663	12,217	24,865	147,745
Postage and delivery	2,102	1,455	730	4,287
Printing and reproduction	23,110	1,814	4,307	29,231
Professional services	1,475	3,742	17,499	22,716
Salaries	1,421,419	240,588	348,768	2,010,775
Software licenses and services	25,282	2,173	625	28,080
Staff training	2,000	150	-	2,150
Stipend	48,925	-	-	48,925
Travel and lodging	105,542	6,404	9,098	121,044
Video production	15,508	-	9,500	25,008
Web development and services	22,040	-	-	22,040
Website amortization	134	-	-	134
	<u>3,772,080</u>	<u>434,088</u>	<u>575,103</u>	<u>4,781,271</u>
In-kind contributions				
Marketing and promotion	470,105	-	-	470,105
Legal services	173,760	29,501	-	203,261
Public relations	8,000	-	-	8,000
Consulting services	50,644	-	-	50,644
Web maintenance	93,608	-	-	93,608
	<u>796,117</u>	<u>29,501</u>	<u>-</u>	<u>825,618</u>
Total functional expenses	<u>\$ 4,568,197</u>	<u>\$ 463,589</u>	<u>\$ 575,103</u>	<u>\$ 5,606,889</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, 2019**

	Civic education curriculum	Management and general	Fundraising	Total
Accounting fees	\$ -	\$ 61,280	\$ -	\$ 61,280
Bad debt expense	-	50,250	-	50,250
Bank and credit card fees	39	2,575	441	3,055
Communications	1,423	6,472	19	7,914
Conference	12,055	550	-	12,605
Consultants	457,447	20,744	33,387	511,578
Depreciation	3,574	978	569	5,121
Dues and subscriptions	4,550	6	1,108	5,664
Employee benefits	76,473	9,947	10,610	97,030
Game development	690,513	-	-	690,513
Grants	340,500	-	-	340,500
Insurance	-	1,836	-	1,836
Licenses and fees	-	577	8,131	8,708
Marketing and promotion	62,555	350	735	63,640
Meals and entertainment	26,482	4,930	8,177	39,589
Occupancy	36,203	12,212	16,134	64,549
Office supplies and expenses	7,853	6,688	798	15,339
Payroll taxes	84,196	11,546	26,334	122,076
Postage and delivery	1,136	615	847	2,598
Printing and reproduction	33,212	1,841	3,400	38,453
Professional services	2,684	4,150	-	6,834
Recruiting	8,626	3,850	7,700	20,176
Salaries	1,179,734	164,139	303,416	1,647,289
Software licenses and services	18,246	76	2,677	20,999
Staff training	975	-	-	975
Stipend	4,750	-	-	4,750
Travel and lodging	136,195	6,111	7,765	150,071
Video production	8,808	-	-	8,808
Web development and services	15,523	-	-	15,523
Website amortization	5,529	-	-	5,529
	<u>3,219,281</u>	<u>371,723</u>	<u>432,248</u>	<u>4,023,252</u>
In-kind contributions				
Marketing and promotion	437,994	-	-	437,994
Legal services	232,715	300	-	233,015
Consulting services	115,500	103,996	-	219,496
Web maintenance	82,027	-	-	82,027
	<u>868,236</u>	<u>104,296</u>	<u>-</u>	<u>972,532</u>
Total functional expenses	<u>\$ 4,087,517</u>	<u>\$ 476,019</u>	<u>\$ 432,248</u>	<u>\$ 4,995,784</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,**

2020

2019

Cash flows from operating activities

Change in net assets	\$	914,931	\$	402,522
Adjustments to reconcile change in net assets to net cash from operating activities				
Website amortization		134		5,529
Depreciation		4,702		5,121
Receipt of donated securities		(10,504)		(29,825)
Proceeds from sales of donated securities		10,838		29,825
Unrealized gain on investments		(16,897)		(23,661)
(Increase) decrease in operating assets				
Prepaid expenses		(42,267)		69,466
Grants and contributions receivable, net		(6,116)		(526,691)
Accounts receivable		8,159		(32,609)
Increase (decrease) in operating liabilities				
Accounts payable and accrued expenses		(114,586)		160,499
Accrued payroll and related liabilities		93,121		32,110
Deferred revenue		10,000		-
Deferred rent		(2,384)		(701)
Net cash provided by operating activities		<u>849,131</u>		<u>91,585</u>

Cash flows from investing activities

Expenditures for property and equipment	(4,085)	(4,274)
Purchase of investments	<u>(15,407)</u>	<u>(14,990)</u>
Net cash used in investing activities	(19,492)	(19,264)

Cash flows from financing activities

Receipt from Paycheck Protection Program loan	<u>343,234</u>	-
Net cash provided by financing activities	<u>343,234</u>	-

Net change in cash and restricted cash

Net change in cash and restricted cash	1,172,873	72,321
Cash and restricted cash, beginning of year	<u>2,361,521</u>	<u>2,289,200</u>
Cash and restricted cash, end of year	<u>\$ 3,534,394</u>	<u>\$ 2,361,521</u>

Supplemental disclosure of cash flow information

Noncash transactions		
Donated securities	<u>\$ 10,504</u>	<u>\$ 29,825</u>
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>
Income taxes paid	<u>\$ -</u>	<u>\$ 1,228</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, 2020 and 2019

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 reimagines civic education for American democracy. The organization champions equitable, non-partisan civic education so that the practice of democracy is learned by each new generation. iCivics works to inspire life-long civic engagement by providing high-quality and engaging civics resources to teachers and students across our nation.

For students, iCivics offers 20 engaging games that transform abstract concepts into real-life interactions. Young people learn how government works by experiencing it. For teachers, along with the games, iCivics 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 accompanying financial statements are prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

Net assets, revenues, gains, and losses are classified based on the existence or absence of restrictions imposed by donors or grantors. Accordingly, net assets and changes therein are classified and reported in two categories as described below.

Net assets without donor restrictions are net assets available for use in general operations and not subject to donor restrictions.

Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Cash

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. At June 30, 2020 and 2019, cash balances exceeded the federally insured limits by \$3,284,394 and \$2,111,521, respectively. The Organization has not experienced any losses on its cash, and management does not believe this results in any significant credit risk.

See independent auditor's report.

Investments

Investments consist of equity securities that are carried at their fair values, which 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 net assets without donor restrictions unless the income or loss is restricted by donor or law.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect amounts reported in future statements of activities. Management believes that the Organization's investments do not represent significant concentrations of market risk as the investment portfolios are adequately diversified among issuers.

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 \$77,070 and \$62,750 as of June 30, 2020 and 2019, respectively.

Website

In accordance with U.S. GAAP, 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, 2020 and 2019, 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.

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, accrued payroll and related liabilities, and deferred revenue. 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.

Contributions

Contributions with donor-imposed restrictions are recognized as net assets with donor restrictions that are restricted for time, purpose, or in perpetuity. When time and purpose restrictions are met, the contributions are transferred to net assets without donor restrictions. Contributions with no donor-imposed restrictions and donor-restricted contributions whose restrictions are met in the same reporting period are reported as support without donor restrictions.

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. GAAP. 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.

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 do not include internal staff time spent to develop games.

Functional allocation of expenses

The costs of providing the program and supporting services have been summarized on a functional basis in the accompanying financial statements. Most expenses are assigned to a functional area as direct expenses. Salaries, employee benefits, payroll taxes, occupancy, and depreciation have been allocated across functional areas based on an estimate of time spent by personnel.

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. The Organization did not have a liability for unrelated business income for the years ended June 30, 2020 and 2019.

The Organization is subject to potential examination by the Internal Revenue Service 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, 2017 through June 30, 2020.

Recently adopted accounting pronouncements

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 adopted the standard on its effective date, which was July 1, 2019, with no effect on beginning net assets.

The FASB issued ASU 2018-08, which provides a new framework for determining whether a transaction should be accounted for as a contribution or an exchange. ASU 2018-08 is effective for annual reporting periods beginning after December 15, 2018. The Organization adopted the standard on its effective date, which was July 1, 2019, with no effect on beginning net assets.

New accounting pronouncements

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, 2021. The Organization plans to adopt the standard on its effective date, which for the Organization is July 1, 2022. The Organization has not evaluated the impact of this statement.

iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

3. Investments

Investment income for the years ended June 30, 2020 and 2019 consisted of the following:

	2020	2019
Interest and dividend income	\$ 32,255	\$ 44,843
Unrealized gains	16,897	23,661
	<u>\$ 49,152</u>	<u>\$ 68,504</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.

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 24,373	\$ -	\$ -	\$ 24,373
Investment grade fixed income index funds	305,656	-	-	305,656
Fixed income high yield bond fund	38,851	-	-	38,851
U.S. equity index funds	161,844	-	-	161,844
International equity index funds	87,400	-	-	87,400
	<u>\$ 618,124</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 618,124</u>

Assets measured at fair value on a recurring basis are summarized below as of June 30, 2019:

	Level 1	Level 2	Level 3	Total
Cash and money market funds	\$ 34,365	\$ -	\$ -	\$ 34,365
Investment grade fixed income index funds	285,595	-	-	285,595
Fixed income high yield bond fund	38,708	-	-	38,708
U.S. equity index funds	145,672	-	-	145,672
International equity index funds	81,814	-	-	81,814
	<u>\$ 586,154</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 586,154</u>

4. Grants and contributions receivable

Grants and contributions receivable as of June 30, 2020 are collectible over a one- to five-year period and have been discounted at an annual discount rate of 0.16 percent to 0.29 percent (depending on the year due) to record the present value of future receipts. Grants and contributions receivable as of June 30, 2019 are collectible over a one- to five-year period and have been discounted at an annual discount rate of 1.76 percent to 1.92 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, 2020 and 2019 was \$790 and \$4,242, respectively.

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

Management has provided for potential uncollectible amounts through an allowance for doubtful accounts of \$77,070 and \$62,750 as of June 30, 2020 and 2019, respectively.

A summary of pledges receivable as of June 30, 2020 and 2019 is as follows:

	2020	2019
Grants and contributions due in:		
Less than one year	\$ 591,302	\$ 737,320
One to five years	406,000	193,000
More than five years	-	50,000
	<u>997,302</u>	<u>980,320</u>
Allowance for doubtful accounts	(77,070)	(62,750)
Present value discount	(788)	(4,242)
	<u>919,444</u>	<u>913,328</u>
Less: current portion	(591,302)	(737,320)
Long-term portion	<u>\$ 328,142</u>	<u>\$ 176,008</u>

5. Property and equipment

Property and equipment consist of the following for the years ended June 30, 2020 and 2019:

	2020	2019	Useful life (years)
Property and equipment, at cost	\$ 47,312	\$ 43,227	5
Less: accumulated depreciation	<u>(37,614)</u>	<u>(32,912)</u>	
	<u>\$ 9,698</u>	<u>\$ 10,315</u>	

6. Website

Website consists of the following for the years ended June 30, 2020 and 2019:

	2020	2019	Useful life (months)
Website, at cost	\$ 623,366	\$ 623,366	36
Less: accumulated amortization	<u>(623,366)</u>	<u>(623,232)</u>	
	<u>\$ -</u>	<u>\$ 134</u>	

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

7. In-kind contributions

In-kind contributions consisted of the following for the years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Marketing and promotion	\$ 470,105	\$ 437,994
Legal services	203,261	233,015
Public relations	8,000	-
Consulting services	50,644	219,496
Web maintenance	93,608	82,027
	<u>\$ 825,618</u>	<u>\$ 972,532</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, and public relations and consulting services supporting the program 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 been 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, up to a maximum of \$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 369 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. GAAP.

8. Revenue from contracts

Sources of revenue from contracts include royalties and licenses, fees for services such as professional development workshops, and publication sales and shipping revenue. The revenue is recognized at the time that the goods or services are provided to the customers, or when the royalty or license fee is earned by the Organization. Contracts were evaluated using the practical expedient of a portfolio approach because each contract is with an individual person or company with similar characteristics that is carried out on a consistent basis.

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iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

The following table disaggregates the Organization's revenue based on the timing of satisfaction of performance obligations for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Performance obligations satisfied at a point in time		
Publication sales and shipping revenue	\$ 24,669	\$ 26,060
Royalties and licenses	43,792	31,203
Fees for services	98,476	60,676
Total revenue from contracts	<u>\$ 166,937</u>	<u>\$ 117,939</u>

Shipping costs are included with other costs of goods sold and reported within web development and services expenses on the statements of functional expenses.

Contract liabilities are presented as deferred revenue on the statements of financial position. At June 30, 2020, deferred revenue consisted of a royalty advance for work to be performed during the following fiscal year.

9. Liquidity and availability

The Organization's financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date comprise the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Cash	\$ 3,518,319	\$ 2,345,584
Accounts receivable	27,696	35,855
Grants and contributions receivable	591,302	737,320
Investments	143,339	111,235
	<u>4,280,656</u>	<u>3,229,994</u>
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions	(985,757)	(1,116,735)
Total financial assets available for general expenditure within one year	<u>\$ 3,294,899</u>	<u>\$ 2,113,259</u>

Income from donor-restricted endowments is restricted for specific purposes, and donor-restricted endowment funds are not available for general expenditure.

As part of its liquidity management plan, the Organization invests cash in excess of daily requirements in short-term investments and money market funds. The Organization also has an unused line of credit available to help manage cash flow if necessary.

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iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

10. Net assets with donor restrictions

Net assets with donor restrictions are restricted for specific purposes or future periods and were composed of the following for the year ended June 30, 2020:

	<u>6/30/2019</u>	<u>Additions</u>	<u>Releases</u>	<u>6/30/2020</u>
Program activities:				
Game development, digital learning tools	\$ 5,250	\$ -	\$ (5,250)	\$ -
Strategic projects	1,000,250	635,000	(792,832)	842,418
Earnings from Sandra Day O'Connor Endowment Fund	111,235	32,104	-	143,339
Restricted for future periods	297,000	590,000	(60,000)	827,000
	<u>\$ 1,413,735</u>	<u>\$ 1,257,104</u>	<u>\$ (858,082)</u>	<u>\$ 1,812,757</u>

Net assets with donor restrictions were composed of the following for the year ended June 30, 2019:

	<u>6/30/2018</u>	<u>Additions</u>	<u>Releases</u>	<u>6/30/2019</u>
Program activities:				
Game development, digital learning tools	\$ 60,057	\$ 10,000	\$ (64,807)	\$ 5,250
Strategic projects	881,252	955,000	(836,002)	1,000,250
Earnings from Sandra Day O'Connor Endowment Fund	72,352	38,883	-	111,235
Restricted for future periods	429,500	-	(132,500)	297,000
	<u>\$ 1,443,161</u>	<u>\$ 1,003,883</u>	<u>\$ (1,033,309)</u>	<u>\$ 1,413,735</u>

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, 2020, contributions of \$20,000 were received, and no funds were appropriated for expenditure. During the year ended June 30, 2019, contributions of \$16,000 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 13.

12. Sandra Day O'Connor Growth Fund 2020-25

In 2020, iCivics, Inc. launched a five-year strategic plan accompanied by a second Sandra Day O'Connor Growth Fund that is specifically for use in 2020 through 2025. The Sandra Day O'Connor Growth Fund 2020-25 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 2020-25 Growth Fund is a board-designated and controlled fund and is not intended to be an endowment fund. During the year ended June 30, 2020, contributions of \$1,150,000 were received, and no funds were appropriated for expenditure.

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13. Endowment funds

The iCivics, Inc. endowment funds consist of one fund that is restricted in perpetuity (the Fund), as detailed in Note 11. As required by U.S. 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 endowment restricted in perpetuity. The current portion of investments represent endowment earnings held as part of net assets with donor restrictions that are restricted for specific purposes.

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 net assets with perpetual restrictions (a) the original value of gifts donated to the perpetual endowment, (b) the original value of subsequent gifts to the perpetual endowment, and (c) accumulations to the perpetual 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 net assets restricted in perpetuity is classified as net assets restricted for specific purposes 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 return, while protecting the principal.

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 Fund or a particular fund or funds within the Fund 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 endowment 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.

iCivics, Inc.

**Notes to Financial Statements
June 30, 2020 and 2019**

Net asset composition by type of fund

The net assets consisted of the following as of June 30, 2020:

	<u>Without donor restrictions</u>	<u>With donor restrictions for purpose</u>	<u>With donor restrictions in perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds				
Sandra Day O'Connor Endowment Fund	\$ -	\$ 143,339	\$ 490,860	\$ 634,199

The net assets consisted of the following as of June 30, 2019:

	<u>Without donor restrictions</u>	<u>With donor restrictions for purpose</u>	<u>With donor restrictions in perpetuity</u>	<u>Total</u>
Donor-restricted endowment funds				
Sandra Day O'Connor Endowment Fund	\$ -	\$ 111,235	\$ 490,860	\$ 602,095

Changes in endowment funds

The net activity consisted of the following:

	<u>Without donor restrictions</u>	<u>With donor restrictions for purpose</u>	<u>With donor restrictions in perpetuity</u>	<u>Total</u>
Endowment funds as of June 30, 2018	\$ -	\$ 72,352	\$ 490,860	\$ 563,212
Investment return				
Investment income	\$ -	\$ 15,222	\$ -	\$ 15,222
Net appreciation	-	23,661	-	23,661
Investment and bank fees	-	-	-	-
Total investment return	-	38,883	-	38,883
Contributions to perpetual endowment	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Endowment funds as of June 30, 2019	\$ -	\$ 111,235	\$ 490,860	\$ 602,095
Investment return				
Investment income	\$ -	\$ 15,540	\$ -	\$ 15,540
Net appreciation	-	16,564	-	16,564
Investment and bank fees	-	-	-	-
Total investment return	-	32,104	-	32,104
Contributions to perpetual endowment	-	-	-	-
Amounts appropriated for expenditure	-	-	-	-
Endowment funds as of June 30, 2020	\$ -	\$ 143,339	\$ 490,860	\$ 634,199

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iCivics, Inc.

Notes to Financial Statements June 30, 2020 and 2019

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, 2020 and 2019.

14. Commitments

In December 2015, the Organization began a lease for office space in Massachusetts through January 31, 2021. The current monthly base rent is \$4,488. 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, 2020 and 2019, the deferred rent credit was \$1,964 and \$4,348, respectively.

The rental expense for the years ended June 30, 2020 and 2019 was \$62,644 and \$59,755, respectively. Minimum future lease payments total \$32,398 for the year ending June 30, 2021.

15. Retirement plan

The Organization maintains a 403(b) plan, and 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. During the years ended June 30, 2020 and 2019, the Organization made contributions of \$20,000 and \$15,000 to the plan, respectively. There is a three-year vesting period for the employer contribution with 30 percent vested in the first year, 60 percent in the second, and 100 percent by the end of the third year.

16. Line of credit and Paycheck Protection Program loan

The Organization has a line of credit available through January 31, 2021 in the amount of \$750,000. The line bears an interest rate equal to the LIBOR daily floating rate plus 3.15 percentage points. No amounts were drawn as of June 30, 2020 and 2019.

The Organization obtained a CARES Act Paycheck Protection Program loan in the amount of \$343,234 in May 2020 as a result of the COVID-19 pandemic. The Organization intends to comply with the loan requirements so that the loan is eligible for forgiveness. As of the date that the financial statements were available to be issued, the Organization had not yet submitted a loan forgiveness application.

17. Agency transactions

During the year ended June 30, 2019, the Organization received funding in the amount of \$118,000 to be re-granted to specified recipients who were working directly with the organization on key efforts to promote civic education. The receipt and disbursements were treated as an agency transaction and were therefore excluded from the Organization's revenue and expenses. The funds were remitted to the specified recipients prior to year-end. There were no such agency transactions during the year ended June 30, 2020.

18. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2020 through November 17, 2020, the date the financial statements were available to be issued, for potential recognition and disclosure in the financial statements. Due to the COVID-19 pandemic, economic uncertainties may arise that could impact the Organization; however, at this time, the degree of economic uncertainty and the resulting financial impact on the Organization cannot be predicted or reasonably estimated. No other events have occurred that require adjustment to, or disclosure in, the financial statements.

See independent auditor's report.