

ICIVICS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2021 AND 2020



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, 2021 and 2020, 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, 2021 and 2020, 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 18, 2021

iCivics, Inc.**Statements of Financial Position
June 30,****2021****2020****Assets****Current assets**

| | | |
|--|------------------|------------------|
| Cash | \$ 6,899,538 | \$ 3,518,319 |
| Prepaid expenses | 92,569 | 55,287 |
| Accounts receivable | 51,083 | 27,696 |
| Grants and contributions receivable-net, current portion | 668,551 | 591,302 |
| Investments, current portion | 242,511 | 143,339 |
| | <u>7,954,252</u> | <u>4,335,943</u> |

Noncurrent assets

| | | |
|--|----------------|----------------|
| Grants and contributions receivable-net, long-term portion | 208,707 | 328,142 |
| Investments restricted for permanent endowment | 474,785 | 474,785 |
| Cash restricted for permanent endowment | 16,075 | 16,075 |
| Security deposit | 4,067 | 4,067 |
| | <u>703,634</u> | <u>823,069</u> |

Intangible assets

| | | |
|--|----------------|---------------|
| Website, net of accumulated amortization | 99,741 | - |
| Domain name | 26,000 | 26,000 |
| | <u>125,741</u> | <u>26,000</u> |

Property and equipment, net

| | | |
|--------------|---------------------|---------------------|
| Total assets | <u>14,065</u> | <u>9,698</u> |
| | <u>\$ 8,797,692</u> | <u>\$ 5,194,710</u> |

Liabilities and net assets**Current liabilities**

| | | |
|---|----------------|----------------|
| Accounts payable and accrued expenses | \$ 112,227 | \$ 85,743 |
| Accrued payroll and related liabilities | 314,299 | 268,948 |
| Deferred revenue | 10,000 | 10,000 |
| SBA Paycheck Protection Program loan, current portion | - | 192,119 |
| Deferred rent, current portion | - | 1,964 |
| | <u>436,526</u> | <u>558,774</u> |

Noncurrent liabilities

| | | |
|--------------------------------------|----------------|----------------|
| SBA Paycheck Protection Program loan | - | 151,115 |
| Total liabilities | <u>436,526</u> | <u>709,889</u> |

Net assets

| | | |
|--|---------------------|---------------------|
| Without donor restrictions | | |
| Undesignated | 879,816 | 435,211 |
| Board-designated for Sandra Day O'Connor Growth Fund | 5,128,734 | 1,745,993 |
| With donor restrictions | | |
| Purpose restrictions | 1,861,756 | 1,812,757 |
| Perpetual in nature | 490,860 | 490,860 |
| Total net assets | <u>8,361,166</u> | <u>4,484,821</u> |
| Total liabilities and net assets | <u>\$ 8,797,692</u> | <u>\$ 5,194,710</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, 2021**

| | <u>Without donor restrictions</u> | | | <u>Total</u> |
|--|-----------------------------------|--|------------------------------------|---------------------|
| | <u>Undesignated</u> | <u>Board- designated Sandra Day O'Connor Growth Fund</u> | <u>With donor restrictions</u> | |
| Support and revenue | | | | |
| Grants and contributions | \$ 2,939,578 | \$ 3,382,741 | \$ 1,552,500 | \$ 7,874,819 |
| In-kind contributions | 1,036,930 | - | - | 1,036,930 |
| Royalties and other contract income | 499,557 | - | - | 499,557 |
| Publication sales and shipping revenue | 48,134 | - | - | 48,134 |
| Investment income | 21 | - | 99,172 | 99,193 |
| Net assets released from restrictions | 1,602,673 | - | (1,602,673) | - |
| Total support and revenue | <u>6,126,893</u> | <u>3,382,741</u> | <u>48,999</u> | <u>9,558,633</u> |
| Expenses | | | | |
| Civic education curriculum | 4,751,211 | - | - | 4,751,211 |
| Management and general | 396,795 | - | - | 396,795 |
| Fundraising | 534,282 | - | - | 534,282 |
| Total expenses | <u>5,682,288</u> | <u>-</u> | <u>-</u> | <u>5,682,288</u> |
| Change in net assets | 444,605 | 3,382,741 | 48,999 | 3,876,345 |
| Net assets, beginning of year | 435,211 | 1,745,993 | 2,303,617 | 4,484,821 |
| Net assets, end of year | <u>\$ 879,816</u> | <u>\$ 5,128,734</u> | <u>\$ 2,352,616</u> | <u>\$ 8,361,166</u> |

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

iCivics, Inc.

**Statement of Activities
for the year ended June 30, 2020**

| | <u>Without donor restrictions</u> | | | |
|--|---------------------------------------|--|------------------------------------|---------------------|
| | <u>Without donor restrictions</u> | <u>Board- designated Sandra Day O'Connor Growth Fund</u> | <u>With donor restrictions</u> | <u>Total</u> |
| Support and revenue | | | | |
| Grants and contributions | \$ 3,085,113 | \$ 1,170,000 | \$ 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>4,952,798</u> | <u>1,170,000</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>-</u> | <u>5,606,889</u> |
| Change in net assets | (654,091) | 1,170,000 | 399,022 | 914,931 |
| Net assets, beginning of year | <u>1,089,302</u> | <u>575,993</u> | <u>1,904,595</u> | <u>3,569,890</u> |
| Net assets, end of year | <u>\$ 435,211</u> | <u>\$ 1,745,993</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 Functional Expenses
for the year ended June 30, 2021**

| | Civic education programming | Management and general | Fundraising | Total |
|----------------------------------|--------------------------------|---------------------------|-------------------|---------------------|
| Accounting fees | \$ - | \$ 72,032 | \$ - | \$ 72,032 |
| Bad debt expense | - | 8,930 | - | 8,930 |
| Bank and credit card fees | 756 | 5,230 | 242 | 6,228 |
| Communications | 2,180 | 5,800 | 10 | 7,990 |
| Conference | 3,660 | - | - | 3,660 |
| Consultants | 916,640 | 40,930 | 24,354 | 981,924 |
| Depreciation | 3,212 | 452 | 330 | 3,994 |
| Dues and subscriptions | 6,413 | - | 1,561 | 7,974 |
| Employee benefits | 111,396 | 6,899 | 22,269 | 140,564 |
| Game development | 344,421 | - | - | 344,421 |
| Grants to other organizations | 106,706 | - | - | 106,706 |
| Insurance | 4,659 | 2,892 | - | 7,551 |
| Licenses and fees | - | 90 | 3,798 | 3,888 |
| Marketing and promotion | 88,117 | - | 923 | 89,040 |
| Meals and entertainment | 1,720 | 1,977 | 8,550 | 12,247 |
| Occupancy | 45,706 | 5,189 | 14,427 | 65,322 |
| Office supplies and expenses | 19,621 | 1,646 | 1,260 | 22,527 |
| Payroll taxes | 126,909 | 13,521 | 28,326 | 168,756 |
| Postage and delivery | 1,065 | 76 | 948 | 2,089 |
| Printing and reproduction | 20,471 | - | 2,752 | 23,223 |
| Professional services | 42,652 | 2,675 | 25,016 | 70,343 |
| Salaries | 1,720,081 | 139,167 | 397,531 | 2,256,779 |
| Software licenses and services | 38,136 | 3,583 | 1,908 | 43,627 |
| Staff training | 361 | - | 69 | 430 |
| Stipend | 73,140 | - | - | 73,140 |
| Travel and lodging | 2,575 | - | 8 | 2,583 |
| Video production | 39,060 | - | - | 39,060 |
| Web development and services | 77,608 | - | - | 77,608 |
| Website amortization | 2,722 | - | - | 2,722 |
| | <u>3,799,987</u> | <u>311,089</u> | <u>534,282</u> | <u>4,645,358</u> |
| In-kind contributions | | | | |
| Marketing and promotion | 677,121 | - | - | 677,121 |
| Legal services | 208,954 | 85,706 | - | 294,660 |
| Public relations | 2,678 | - | - | 2,678 |
| Consulting services | 5,000 | - | - | 5,000 |
| Web maintenance | 57,471 | - | - | 57,471 |
| | <u>951,224</u> | <u>85,706</u> | <u>-</u> | <u>1,036,930</u> |
| Total functional expenses | <u>\$ 4,751,211</u> | <u>\$ 396,795</u> | <u>\$ 534,282</u> | <u>\$ 5,682,288</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 programming | 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.

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

2021

2020

Cash flows from operating activities

| | | |
|---|------------------|----------------|
| Change in net assets | \$ 3,876,345 | \$ 914,931 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Website amortization | 2,722 | 134 |
| Depreciation | 3,994 | 4,702 |
| Forgiveness of SBA Paycheck Protection loan | (343,234) | - |
| Receipt of donated securities | (105,050) | (10,504) |
| Proceeds from sales of donated securities | 105,050 | 10,838 |
| Unrealized gain on investments | (84,725) | (16,897) |
| Change in allowance and discount | 8,857 | 10,866 |
| (Increase) decrease in operating assets | | |
| Prepaid expenses | (37,282) | (42,267) |
| Accounts receivable | (23,387) | 8,159 |
| Grants and contributions receivable | 33,329 | (16,982) |
| Increase (decrease) in operating liabilities | | |
| Accounts payable and accrued expenses | 26,484 | (114,586) |
| Accrued payroll and related liabilities | 45,351 | 93,121 |
| Deferred revenue | - | 10,000 |
| Deferred rent | (1,964) | (2,384) |
| Net cash provided by operating activities | <u>3,506,490</u> | <u>849,131</u> |

Cash flows from investing activities

| | | |
|---|------------------|-----------------|
| Expenditures for website | (102,463) | - |
| Expenditures for property and equipment | (8,361) | (4,085) |
| Purchase of investments | (14,447) | (15,407) |
| Net cash used in investing activities | <u>(125,271)</u> | <u>(19,492)</u> |

Cash flows from financing activities

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

Net change in cash and restricted cash

| | | |
|--|---------------------|---------------------|
| Net change in cash and restricted cash | 3,381,219 | 1,172,873 |
| Cash and restricted cash, beginning of year | 3,534,394 | 2,361,521 |
| Cash and restricted cash, end of year | <u>\$ 6,915,613</u> | <u>\$ 3,534,394</u> |

Supplemental disclosure of cash flow information

| | | |
|------------------------|------------|-----------|
| Noncash transactions | | |
| Donated securities | \$ 105,050 | \$ 10,504 |
| Cash paid for interest | \$ - | \$ - |
| Income taxes paid | \$ - | \$ - |

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

iCivics, Inc.

Notes to Financial Statements June 30, 2021 and 2020

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, 2021 and 2020, cash balances exceeded the federally insured limits by \$6,665,592 and \$3,284,394, 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.

iCivics, Inc.

Notes to Financial Statements June 30, 2021 and 2020

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statement of cash flows as of June 30,.

| | <u>2021</u> | <u>2020</u> |
|---|---------------------|---------------------|
| Cash | \$ 6,899,538 | \$ 3,518,319 |
| Cash restricted for permanent endowment | <u>16,075</u> | <u>16,075</u> |
| | <u>\$ 6,915,613</u> | <u>\$ 3,534,394</u> |

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 \$86,000 and \$77,070 as of June 30, 2021 and 2020, 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, 2021 and 2020, 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.

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. In-kind contributions 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, 2021 and 2020.

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, 2018 through June 30, 2021.

Reclassifications

Certain reclassifications have been made to the June 30, 2020 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

iCivics, Inc.

Notes to Financial Statements June 30, 2021 and 2020

Upcoming 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. iCivics, Inc. plans to adopt the standard on its effective date, which for the organization is July 1, 2022. iCivics, Inc. has not evaluated the impact of this statement.

The FASB has issued ASU 2020-07, which clarifies the presentation and disclosure of contributed nonfinancial assets, which include tangible property, intangible items, and specialized services. Upon implementation, nonprofits will be required to show in-kind contributions of nonfinancial assets as a separate line, apart from cash contributions, on the statement of activities, along with qualitative information about how the organization either monetized or utilized the assets and a description of the valuation techniques used to arrive at the fair value of the assets at initial recognition. ASU 2020-07 is effective for annual reporting periods beginning after June 15, 2021. iCivics, Inc. has adopted the standard on its effective date, which for the organization was July 1, 2021.

3. Investments

Investment income for the years ended June 30, 2021 and 2020 consisted of the following:

| | 2021 | 2020 |
|------------------------------|------------------|------------------|
| Interest and dividend income | \$ 14,468 | \$ 32,255 |
| Unrealized gains | 84,725 | 16,897 |
| | <u>\$ 99,193</u> | <u>\$ 49,152</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, 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|---|-------------------|-------------|-------------|-------------------|
| Cash and money market funds | \$ 23,623 | \$ - | \$ - | \$ 23,623 |
| Investment grade fixed income index funds | 311,695 | - | - | 311,695 |
| Fixed income high yield bond fund | 47,101 | - | - | 47,101 |
| U.S. equity index funds | 215,183 | - | - | 215,183 |
| International equity index funds | 119,694 | - | - | 119,694 |
| | <u>\$ 717,296</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 717,296</u> |

See independent auditor's report.

iCivics, Inc.

Notes to Financial Statements June 30, 2021 and 2020

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

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|-------------------|----------------|----------------|-------------------|
| 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> |

4. Grants and contributions receivable

Grants and contributions receivable as of June 30, 2021 are collectible over a one- to five-year period and have been discounted at an annual discount rate of 0.07 percent to 0.46 percent (depending on the year due) to record the present value of future receipts. 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. The discount rate is based on the daily treasury yield curve rates. The discount as of June 30, 2021 and 2020 was \$715 and \$788, respectively.

Management has provided for potential uncollectible amounts through an allowance for doubtful accounts of \$86,000 and \$77,070 as of June 30, 2021 and 2020, respectively.

A summary of pledges receivable as of June 30, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|----------------------------------|-------------------|-------------------|
| Grants and contributions due in: | | |
| Less than one year | \$ 668,551 | \$ 591,302 |
| One to five years | 295,422 | 406,000 |
| More than five years | - | - |
| | <u>963,973</u> | <u>997,302</u> |
| Allowance for doubtful accounts | (86,000) | (77,070) |
| Present value discount | (715) | (788) |
| | <u>877,258</u> | <u>919,444</u> |
| Less: current portion | (668,551) | (591,302) |
| Long-term portion | <u>\$ 208,707</u> | <u>\$ 328,142</u> |

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5. Property and equipment

Property and equipment consist of the following for the years ended June 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> | <u>Useful life (years)</u> |
|----------------------------------|------------------|-----------------|--------------------------------|
| Property and equipment, at cost: | | | |
| Computer and office equipment | \$ 39,596 | \$ 31,235 | 5 |
| Furniture and fixtures | 1,414 | 1,414 | 5 |
| Property and equipment | 11,537 | 11,537 | 5 |
| Leasehold improvements | 3,126 | 3,126 | 5 |
| Less: accumulated depreciation | (41,608) | (37,614) | |
| | <u>\$ 14,065</u> | <u>\$ 9,698</u> | |

6. Website

Website consists of the following for the years ended June 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> | <u>Useful life (months)</u> |
|--------------------------------|------------------|-------------|---------------------------------|
| Website, at cost | \$ 592,828 | \$ 623,366 | 36 |
| Less: accumulated amortization | (493,087) | (623,366) | |
| | <u>\$ 99,741</u> | <u>\$ -</u> | |

7. In-kind contributions

In-kind contributions consisted of the following for the years ended June 30, 2021 and 2020:

| | <u>2021</u> | <u>2020</u> |
|-------------------------|---------------------|-------------------|
| Marketing and promotion | \$ 677,121 | \$ 470,105 |
| Legal services | 297,338 | 203,261 |
| Public relations | - | 8,000 |
| Consulting services | 5,000 | 50,644 |
| Web maintenance | 57,471 | 93,608 |
| | <u>\$ 1,036,930</u> | <u>\$ 825,618</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

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AdWords advertising used, up to a maximum of \$50,000 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 404 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.

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

| | 2021 | 2020 |
|--|-------------------|-------------------|
| Performance obligations satisfied at a point in time | | |
| Publication sales and shipping revenue | \$ 48,134 | \$ 24,669 |
| Royalties and licenses | 91,255 | 43,792 |
| Fees for services | 408,302 | 98,476 |
| Total revenue from contracts | <u>\$ 547,691</u> | <u>\$ 166,937</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 and 2021, 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, 2021 and 2020:

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| | 2021 | 2020 |
|--|---------------------|---------------------|
| Cash | \$ 6,899,538 | \$ 3,518,319 |
| Accounts receivable | 51,083 | 27,696 |
| Grants and contributions receivable | 668,551 | 591,302 |
| Investments | 242,511 | 143,339 |
| | <u>7,861,683</u> | <u>4,280,656</u> |
| Less amounts unavailable for general expenditures within one year, due to: | | |
| Restricted by donors with purpose restrictions | (1,383,497) | (985,757) |
| Total financial assets available for general expenditure within one year | <u>\$ 6,478,186</u> | <u>\$ 3,294,899</u> |

Income from donor-restricted endowments is restricted for specific purposes, and donor-restricted endowment funds are not available for general expenditure. In addition, the Sandra Day O'Connor Growth Fund of \$5,128,734 is included in the \$6,899,538 cash balance above and is board-designated, as further detailed in note 12.

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, as further detailed in Note 16.

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, 2021:

| | 6/30/2020 | Additions | Releases | 6/30/2021 |
|---|---------------------|---------------------|-----------------------|---------------------|
| Program activities: | | | | |
| Strategic projects | \$ 842,418 | \$ 1,437,500 | \$ (1,138,932) | \$ 1,140,986 |
| Earnings from Sandra Day O'Connor Endowment Fund | 143,339 | 99,172 | - | 242,511 |
| Restricted for future periods | 827,000 | 115,000 | (463,741) | 478,259 |
| | <u>\$ 1,812,757</u> | <u>\$ 1,651,672</u> | <u>\$ (1,602,673)</u> | <u>\$ 1,861,756</u> |

Net assets with donor restrictions were composed of the following for the year ended June 30, 2020:

| | 6/30/2019 | Additions | Releases | 6/30/2020 |
|---|---------------------|---------------------|---------------------|---------------------|
| 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> |

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11. Sandra Day O'Connor Endowment 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 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

The Sandra Day O'Connor Growth Fund established as part of the Sandra Day O'Connor Legacy Fund was 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, 2021, no contributions were received, and no funds were appropriated for expenditure. During the year ended June 30, 2020, contributions of \$20,000 were received, and no funds were appropriated for expenditure. The balance as of June 30, 2021 and June 30, 2020 was \$595,993.

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, 2021, contributions of \$3,382,741 were received, and no funds were appropriated for expenditure. During the year ended June 30, 2020, contributions of \$1,150,000 were received, and no funds were appropriated for expenditure. The balance as of June 30, 2021 and June 30, 2020 was \$4,532,741 and \$1,150,000, respectively.

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:

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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.

Net asset composition by type of fund

The net assets consisted of the following as of June 30, 2021:

| | <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 | \$ - | \$ 242,511 | \$ 490,860 | \$ 733,371 |

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 |

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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, 2019 | \$ - | \$ 111,235 | \$ 490,860 | \$ 602,095 |
| Investment return | | | | |
| Investment income | \$ - | \$ 15,540 | \$ - | \$ 15,540 |
| Net appreciation | - | 16,564 | - | 16,564 |
| Total investment return | - | 32,104 | - | 32,104 |
| Endowment funds as of June 30, 2020 | \$ - | \$ 143,339 | \$ 490,860 | \$ 634,199 |
| Investment return | | | | |
| Investment income | \$ - | \$ 14,447 | \$ - | \$ 14,447 |
| Net appreciation | - | 84,725 | - | 84,725 |
| Total investment return | - | 99,172 | - | 99,172 |
| Endowment funds as of June 30, 2021 | \$ - | \$ 242,511 | \$ 490,860 | \$ 733,371 |

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, 2021 and 2020.

14. Commitments and contingencies

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, 2021 and 2020, the deferred rent credit was zero and \$1,964, respectively. The rental expense for the years ended June 30, 2021 and 2020 was \$59,528 and \$62,644, respectively. After the lease ended in January 2021, the landlord agreed to a month-to-month arrangement where each party has to give 30 days' notice to vacate the space.

In June 2021, the Organization's legal counsel responded to a request to return donations paid to iCivics in 2013 through 2018 on the basis of a bankruptcy claim. In the claim, the receiver is requesting the return of donated funds totaling \$70,000. As of June 30, 2021, the Organization has not recorded a provision for this matter as it is not probable that iCivics will need to return the full amount of the funds, nor is the amount reasonably estimated. Management believes, however, that any liability it may incur would not have a material adverse effect on its financial condition or its results of operations.

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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, 2021 and 2020, the Organization made contributions of \$25,000 and \$20,000 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

The Organization has a line of credit available through May 1, 2022 in the amount of \$750,000. The line bears an interest rate equal to the bank's prime rate plus 0.05 percentage points. No amounts were drawn as of June 30, 2021 and 2020.

17. Subsequent events

The Organization assessed events occurring subsequent to June 30, 2021 through November 18, 2021, 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.