NATIONAL CENTER FOR RESEARCH IN ADVANCED INFORMATION AND DIGITAL TECHNOLOGIES

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2013 AND 2012

Halt Buzas & Powell, LTD

CERTIFIED PUBLIC ACCOUNTANTS • MANAGEMENT CONSULTANTS

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
National Center for Research in Advanced Information and Digital Technologies
Washington, D.C.

We have audited the accompanying financial statements of National Center for Research in Advanced Information and Digital Technologies (the Organization), which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities 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.

Auditors' 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 from 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 auditors' 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 the Organization as of December 31, 2013 and 2012, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 17-18 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Halt, Buzas & Powell, Ltd.

Alexandria, Virginia
May 22, 2014

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 1,223,121	$ 752,433
Certificates of deposit	99,965	599,790
Contributions receivable	100,000	350,038
Grants receivable	1,050,000	50,000
Prepaid expenses	4,800	-
Property and equipment, net	9,160	-
Deposit	1,500	1,500
Total assets	$ 2,488,546	$ 1,753,761
LIABILITIES AND NET ASSETS		
Accounts payable	15,143	9,207
Accrued expenses	19,607	12,302
Total liabilities	34,750	21,509
Net assets:		
Unrestricted	402,338	601,883
Unrestricted, board designated	44,704	-
Total unrestricted net assets	447,042	601,883
Temporarily restricted	2,006,754	1,130,369
Total net assets	2,453,796	1,732,252
Total liabilities and net assets	$ 2,488,546	$ 1,753,761

See accompanying notes to financial statements.

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Grant revenue	$ 6,411	$ 1,909,547	$ 1,915,958
Contribution revenue	489,223	20,000	509,223
In-kind contributions	273,875	-	273,875
Investment income	168	3,375	3,543
Other income	22	-	22
Net assets released from restrictions:			
Satisfaction of donor restrictions	1,056,537	(1,056,537)	-
Total revenues	1,826,236	876,385	2,702,621
Expenses:			
Program services	1,717,488	-	1,717,488
Support services:			
Management and general	200,813	-	200,813
Fundraising	62,776	-	62,776
Total support services	263,589	-	263,589
Total expenses	1,981,077	-	1,981,077
Change in net assets	(154,841)	876,385	721,544
Net assets, January 1, 2013	601,883	1,130,369	1,732,252
Net assets, December 31, 2013	$ 447,042	$ 2,006,754	$ 2,453,796

See accompanying notes to financial statements.

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Unrestricted	Temporarily Restricted	Total
Revenues:			
Contribution revenue	$ 668,356	$ 1,244,566	$ 1,912,922
In-kind contributions	436,650	-	436,650
Grant revenue	420,955	-	420,955
Other income	343	-	343
Investment loss	(975)	-	(975)
Net assets released from restrictions:			
Satisfaction of donor restrictions	164,197	(164,197)	-
Total revenues	1,689,526	1,080,369	2,769,895
Expenses:			
Program services	856,944	-	856,944
Support services:			
Management and general	116,515	-	116,515
Fundraising	201,172	-	201,172
Total support services	317,687	-	317,687
Total expenses	1,174,631	-	1,174,631
Change in net assets	514,895	1,080,369	1,595,264
Net assets, January 1, 2012	86,988	50,000	136,988
Net assets, December 31, 2012	$ 601,883	$ 1,130,369	$ 1,732,252

See accompanying notes to financial statements.

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 721,544	$ 1,595,264
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net realized and unrealized (gain) loss on investments	(168)	978
Donated securities	-	(9,955)
Depreciation	2,217	-
Decrease (increase) in assets:		
Grants receivable	(1,000,000)	36,095
Contributions receivable	250,038	(375,038)
Prepaid expenses	(4,800)	-
Increase (decrease) in liabilities:		
Accounts payable	5,936	2,755
Accrued expenses	7,305	8,776
Total adjustments	(739,472)	(336,389)
Net cash (used in) provided by operating activities	(17,928)	1,258,875
Cash flows from investing activities:		
Purchases of certificates of deposit	(500,007)	(599,790)
Proceeds from redemption of certificates of deposit	1,000,000	8,977
Purchases of property and equipment	(11,377)	-
Net cash provided by (used in) investing activities	488,616	(590,813)
Net increase in cash and cash equivalents	470,688	668,062
Cash and cash equivalents, beginning of year	752,433	84,371
Cash and cash equivalents, end of year	$ 1,223,121	$ 752,433
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 1,238	$ 168

See accompanying notes to financial statements.

1. Organization

The National Center for Research in Advance Information and Digital Technologies (the Organization) was incorporated in April 2011 in the District of Columbia. The Organization is a bipartisan independent nonprofit corporation authorized by Congress to support a comprehensive research and development program to harness the increasing capacity of advanced information and digital technologies to improve all levels of learning and education, formal and informal, in order to provide Americans with the knowledge and skills needed to compete in the global economy.

2. Summary of significant accounting policies

Basis of presentation

The financial statements are presented in accordance with *U.S. Generally Accepted Accounting Principles* for nonprofit organizations. Under those principles, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets represent resources that are not subject to donor imposed stipulations and are available for operations at management's discretion.

Temporarily Restricted Net Assets represent resources restricted by donors as to purpose or by the passage of time.

Permanently Restricted Net Assets represent resources whose use by the Organization is limited by donor imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by action of the Organization. Income from the assets held is available for either general operations or specific purposes, in accordance with donor stipulations.

The Organization had no permanently restricted net assets at December 31, 2013 and 2012.

Basis of accounting

The financial statements are prepared on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses when obligations are incurred.

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 certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses and their functional allocation during the reporting period. Actual results could differ from those estimates.

Fair value measurements

The Organization follows *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, for financial assets and liabilities. This standard establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The objective of a fair value measurement is to determine the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accordingly, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs used to measure fair value are categorized as follows:

- Level 1 - quoted prices in active markets for identical securities or liabilities.
- Level 2 - inputs, other than quoted prices, that are observable for the asset or liability either directly or indirectly, including inputs from markets that are not considered to be active.
- Level 3 - unobservable inputs which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the standard. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3. There were no level 3 inputs for any assets, held by the Organization at December 31, 2013 and 2012.

Income taxes

The Organization is exempt from federal and local income taxes under Section 501(c)(3) of the Internal Revenue Code on any net income derived from activities related to its exempt purpose. This code section enables the Organization to accept donations that qualify as charitable contributions to the donor. The Organization is subject to tax on net income from unrelated business activities. For the years ended December 31, 2013 and 2012, the Organization did not recognize income tax expense in the accompanying financial statements as there was no unrelated business taxable income.

The Organization is not aware of any activities that would jeopardize its tax-exempt status that would require recognition in the accompanying financial statements, pursuant to *Accounting Standards Codification (ASC) for Income Taxes*. Generally, tax returns are subject to examination by taxing authorities for up to three years from the date a completed return is filed. If there are material omissions of income, tax returns may be subject to examination for up to six years. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. At December 31, 2013 and 2012, the Organization had no accruals for interest and/or penalties.

Cash and cash equivalents

For financial statement purposes, the Organization considers highly liquid investments with an original maturity of three months or less and overnight sweep accounts invested in repurchase agreements as cash equivalents. Excluded from this definition of cash equivalents are certificates of deposit with an original maturity date greater than a period of three months.

Contributions receivable

Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. All contributions receivable are expected to be collected in less than one year and are reported at net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At December 31, 2013 and 2012, management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized at December 31, 2013 and 2012.

Grants receivable

Grants receivable are due in less than one year and are recorded at their net realizable value. Reserves are established for receivables that are delinquent and considered uncollectible based on periodic reviews by management. At December 31, 2013 and 2012, management estimates that all receivables are fully collectible. Therefore, no allowance for doubtful accounts has been recognized at December 31, 2013 and 2012.

Property and equipment

Property and equipment acquisitions are recorded in the financial statements at cost, net of accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment and software	3 years
Furniture and fixtures	5 years

The Organization's policy is to capitalize major additions and improvements over $ 1,000. Repairs and maintenance which do not significantly add to the value of assets are expensed as incurred.

Revenue recognition

Contributions

Contributions are recognized as revenue when received or promised and are recorded net of any current year allowance or discount activity. The Organization reports gifts of cash and other assets as temporarily restricted support if they are received or promised with donor stipulations that limit the use of the donated assets to the Organization's programs or to a future year. When a donor restriction expires, that is, when a purpose restriction is accomplished or time restriction has elapsed, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statements of activities as net assets released from restrictions. Contributions that are restricted by the donor is reported as unrestricted if the restriction expires in the same reporting period in which the contribution is recognized.

Grants

Grant revenue is recognized as earned when the qualifying costs are incurred. Amounts received in advance are recorded as deferred revenue in the accompanying statements of financial position.

In-kind contributions

Donated materials, services and use of facilities are recorded at fair value when an unconditional commitment is received and are recognized as in-kind contributions as revenue and expense in the accompanying financial statements. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The value of such services is recorded based on the estimated fair value of services provided and is classified as in-kind contributions revenue and expense applicable to programs and supporting services that are directly benefited.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Reclassification

Certain amounts in the 2012 financial statements have been reclassified to conform with the 2013 presentation. None of these reclassifications affected the 2013 change in net assets.

3. Concentrations of credit risk

The Organization maintains bank deposits and certain certificates of deposit that, at times, exceed the Federal Deposit Insurance Corporation (FDIC) limits. At December 31, 2013 and 2012, the Organization had bank deposits in excess of FDIC limits of $1,016,197 and $349,790, respectively.

4. Certificates of deposit

At December 31, 2013 and 2012, the Organization held certificates of deposit with original maturity dates greater than a period of ninety days. The fair value of the certificates of deposit is equivalent to the carrying amount reported, which was $99,965 and $599,790 at December 31, 2013 and 2012, respectively. They are classified as level 2 hierarchy assets based on quoted prices in markets that are not active for which all inputs are observable.

5. Property and equipment, net

The following is a summary of property and equipment held at December 31:

	2013	2012
Computer equipment	$ 6,309	$ -
Office furniture	5,068	-
Subtotal property and equipment	11,377	-
Accumulated depreciation	(2,217)	-
Total property and equipment, net	$ 9,160	$ -

Depreciation expense for the year ended December 31, 2013 was $2,217. There was no depreciation expense for the year ended December 31, 2012.

6. Temporarily restricted net assets

At December 31, 2013 and 2012, temporarily restricted net assets were available for the following programs:

	2013	2012
League of Innovative Schools	$ 391,202	$ 219,059
Procurement Research	389,547	-
Professional Educator Micro Credentials	501,005	-
Adult Education	650,000	-
Time restricted	75,000	911,310
Total temporarily restricted net assets	$ 2,006,754	$ 1,130,369

7. Net assets released from restrictions

Purpose and time restrictions accomplished during the years ended December 31, 2013 and 2012 were as follows:

	2013	2012
League of Innovative Schools	$ 877,541	$ 55,942
Procurement Research	110,000	-
Professional Educator Micro Credentials	48,996	-
Time restricted	20,000	108,255
Total net assets released from restrictions	$ 1,056,537	$ 164,197

8. Commitments

Operating leases

In October 2011, the Organization entered into a one year noncancellable lease agreement which was terminated in February 2013. The monthly payment under this lease was $1,202.

In February 2013, the Organization entered into a two year noncancellable lease agreement which will end in April 2015. The monthly payment under this lease is $4,200.

Total rent expense was $52,288 and $32,957 for the years ended December 31, 2013 and 2012, respectively.

Aggregate future minimum lease payments are as follows for the years ending December 31:

2014	$ 50,400
2015	16,800
Total	$ 67,200

9. Concentration of revenue

For the year ended December 31, 2013, the Organization recognized 57% of total revenue from three private grantors. For the year ended December 31, 2012, the Organization recognized 38% of total revenue from one private grantor.

10. Retirement plan

The Organization offers a 401(k) retirement plan to their employees. The Organization makes a 3% non-elective safe harbor contribution for each employee upon becoming eligible for the plan with contributions commencing in 2014.

11. Donated legal services

The Organization received donated legal services valued at $273,875 and $436,650 for the years ended December 31, 2013 and 2012, respectively. Such amounts are recognized as in-kind contributions and have been allocated among program and supporting services benefited.

12. Subsequent events

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 22, 2014, which is the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.

SUPPLEMENTAL INFORMATION

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2013

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 468,152	$ 90,891	$ 6,905	$ 97,796	$ 565,948
Payroll taxes	35,937	6,977	530	7,507	43,444
Employee benefits	20,479	3,976	302	4,278	24,757
Accounting services	48,754	9,465	719	10,184	58,938
Communication	28,711	-	-	-	28,711
Legal services	246,488	27,713	-	27,713	274,201
Supplies	5,043	2,096	69	2,165	7,208
Internet and telephone	3,283	637	48	685	3,968
Rent	43,253	8,397	638	9,035	52,288
Recruiting	56,218	-	-	-	56,218
Depreciation	1,834	356	27	383	2,217
Conferences, conventions and meetings	73,985	14,364	1,091	15,455	89,440
Equipment	5,082	987	75	1,062	6,144
Travel	88,404	17,164	1,304	18,468	106,872
Consultants	506,618	-	49,810	49,810	556,428
Website and media	73,186	14,209	1,079	15,288	88,474
Insurance	1,185	230	17	247	1,432
Interest	-	1,238	-	1,238	1,238
Dues and subscriptions	6,836	1,327	101	1,428	8,264
Meals and entertainment	307	60	5	65	372
Payroll service fees	3,634	705	54	759	4,393
Miscellaneous	99	21	2	23	122
Total expenses	$ 1,717,488	$ 200,813	$ 62,776	$ 263,589	$ 1,981,077

NATIONAL CENTER FOR RESEARCH IN ADVANCE INFORMATION

AND DIGITAL TECHNOLOGIES

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2012

	Program services	Management and general	Fundraising	Total support services	Total expenses
Salaries	$ 240,010	$ -	$ 40,744	$ 40,744	$ 280,754
Payroll taxes	20,071	16	1,887	1,903	21,974
Employee benefits	59,839	48	5,625	5,673	65,512
Accounting services	51,763	2,503	7,700	10,203	61,966
Legal services	392,985	21,833	21,833	43,666	436,651
Supplies	2,942	-	170	170	3,112
Internet and telephone	1,354	567	134	701	2,055
Rent	22,983	6,357	3,617	9,974	32,957
Equipment	2,151	82	-	82	2,233
Travel	43,055	-	4,354	4,354	47,409
Consultants	-	82,570	107,568	190,138	190,138
Website and media	13,465	-	75	75	13,540
Insurance	1,458	-	-	-	1,458
Interest	-	168	-	168	168
Miscellaneous	4,868	2,371	7,465	9,836	14,704
Total expenses	$ 856,944	$ 116,515	$ 201,172	$ 317,687	$ 1,174,631