

**NATIONAL CENTER FOR RESEARCH IN ADVANCED INFORMATION
AND DIGITAL TECHNOLOGIES**

FINANCIAL STATEMENTS

DECEMBER 31, 2014

National Center for Research in Advanced Information and Digital Technologies

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December 31, 2014**

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Independent Auditors' Report

To the Board of Directors
National Center for Research in Advanced
Information and Digital Technologies

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, 2014, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit 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 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 auditors consider internal control relevant to the Organization'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 Organization'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, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
National Center for Research in Advanced
Information and Digital Technologies

Prior Period Financial Statements

The financial statements of the National Center for Research in Advanced Information and Digital Technologies as of December 31, 2013, were audited by other auditors whose report dated May 22, 2014, expressed an unmodified opinion on those statements.

Councilor, Buchanan + Mitchell, P.C.

Washington, DC
July 16, 2015

Certified Public Accountants

National Center for Research in Advanced Information and Digital Technologies

Statement of Financial Position

December 31, 2014

(With Summarized Financial Information for December 31, 2013)

	<u>2014</u>	<u>2013</u>
Assets		
Cash and Cash Equivalents	\$ 2,758,223	\$ 1,223,121
Certificates of Deposit	-	99,965
Contributions Receivable	90,500	100,000
Grants Receivable	2,261,150	1,050,000
Due from Digital Promise Global	21,507	-
Prepaid Expenses and Other Assets	14,017	6,300
Property and Equipment, Net	<u>289,062</u>	<u>9,160</u>
Total Assets	<u>\$ 5,434,459</u>	<u>\$ 2,488,546</u>
Liabilities and Net Assets		
Liabilities		
Accounts Payable	\$ 70,410	\$ 15,143
Accrued Expenses	65,845	19,607
Deferred Revenue	<u>571,253</u>	<u>-</u>
Total Liabilities	<u>707,508</u>	<u>34,750</u>
Net Assets		
Unrestricted	530,521	402,338
Unrestricted, Board Designated	<u>58,947</u>	<u>44,704</u>
Total Unrestricted	589,468	447,042
Temporarily Restricted	<u>4,137,483</u>	<u>2,006,754</u>
Total Net Assets	<u>4,726,951</u>	<u>2,453,796</u>
Total Liabilities and Net Assets	<u>\$ 5,434,459</u>	<u>\$ 2,488,546</u>

See accompanying Notes to Financial Statements.

National Center for Research in Advanced Information and Digital Technologies

**Statement of Activities
For the Year Ended December 31, 2014
(With Summarized Financial Information for the Year Ended December 31, 2013)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014 Total</u>	<u>2013 Total</u>
Revenues and Support				
Contributions	\$ 498,153	\$ 137,500	\$ 635,653	\$ 509,223
Grant Revenue	904,252	4,620,711	5,524,963	1,915,958
In-Kind Contributions	5,409,243	-	5,409,243	273,875
Interest Income	473	-	473	3,543
Other Income	17,116	-	17,116	22
Net Assets Released from Restrictions	<u>2,627,482</u>	<u>(2,627,482)</u>	<u>-</u>	<u>-</u>
 Total Revenues and Support	 <u>9,456,719</u>	 <u>2,130,729</u>	 <u>11,587,448</u>	 <u>2,702,621</u>
Expenses				
 Program Services	 <u>8,994,351</u>	 <u>-</u>	 <u>8,994,351</u>	 <u>1,717,488</u>
Supporting Services				
Management and General	299,677	-	299,677	200,813
Fundraising	<u>20,265</u>	<u>-</u>	<u>20,265</u>	<u>62,776</u>
 Total Supporting Services	 <u>319,942</u>	 <u>-</u>	 <u>319,942</u>	 <u>263,589</u>
 Total Expenses	 <u>9,314,293</u>	 <u>-</u>	 <u>9,314,293</u>	 <u>1,981,077</u>
 Change in Net Assets	 142,426	 2,130,729	 2,273,155	 721,544
Net Assets, Beginning of Year	<u>447,042</u>	<u>2,006,754</u>	<u>2,453,796</u>	<u>1,732,252</u>
 Net Assets, End of Year	 <u>\$ 589,468</u>	 <u>\$ 4,137,483</u>	 <u>\$ 4,726,951</u>	 <u>\$ 2,453,796</u>

See accompanying Notes to Financial Statements.

National Center for Research in Advanced Information and Digital Technologies

**Statement of Functional Expenses
For the Year Ended December 31, 2014**

	League of Innovative Schools	Adult Education	Digital Promise Schools	Marketplace	Micro Credentials	General Programs	Research	Total Programs	Fundraising	General and Administrative	2014 Total
Salaries	\$ 341,019	\$ 182,463	\$ 268,421	\$ 160,240	\$ 308,758	\$ 241,320	\$ 91,262	\$ 1,593,483	\$ 12,158	\$ 157,513	\$ 1,763,154
Payroll Taxes and Benefits	65,496	35,044	51,553	30,776	59,300	46,348	17,528	306,045	2,335	30,252	338,632
Consultants	146,257	600	248,334	257,639	210,016	41,725	4,625	909,196	4,500	-	913,696
Equipment Expense	-	-	5,277,243	-	-	-	-	5,277,243	-	-	5,277,243
Web and Media	6,000	-	10,000	-	10,000	-	-	26,000	-	-	26,000
Legal and Professional Fees	-	-	-	-	-	127,996	-	127,996	-	4,004	132,000
Staff Travel	65,026	12,536	54,707	18,773	16,495	42,434	2,669	212,640	612	1,467	214,719
Travel Stipends	61,623	-	5,000	5,041	-	5,939	-	77,603	-	-	77,603
Convening Costs -											
Biannual League Meeting	240,521	-	-	-	-	305	-	240,826	-	235	241,061
Other In-Person Convenings	25,920	-	5,302	8,200	5,620	10,930	-	55,972	-	239	56,211
Accounting Services	-	-	-	-	-	-	-	-	-	25,210	25,210
Miscellaneous	18	-	-	-	-	4,466	-	4,484	-	9,051	13,535
Dues and Subscriptions	624	-	-	4,492	20	(639)	-	4,497	-	3,796	8,293
Office Supplies	101	-	366	-	-	210	-	677	-	5,812	6,489
Taxes and Licenses	-	-	-	-	-	-	-	-	-	1,696	1,696
Insurance	-	-	-	-	-	-	-	-	-	5,690	5,690
Postage and Delivery	24	-	-	-	5	291	-	320	-	571	891
Internet and Telephone	-	-	308	-	35	7,108	-	7,451	-	5,112	12,563
Office Equipment	935	-	44,164	-	-	1,859	-	46,958	-	25,795	72,753
Recruiting Costs	3,500	-	-	-	-	-	-	3,500	-	9,260	12,760
Online Administrative Tools	-	-	-	-	-	500	-	500	-	4,718	5,218
Registration Fees	5,105	1,311	-	899	1,485	3,610	-	12,410	-	700	13,110
Office Rent	12,762	6,828	10,045	5,997	11,555	9,031	3,415	59,633	455	5,895	65,983
Depreciation and Amortization	5,760	3,082	4,534	2,707	5,216	4,076	1,542	26,917	205	2,661	29,783
Total Expenses	\$ 980,691	\$ 241,864	\$ 5,979,977	\$ 494,764	\$ 628,505	\$ 547,509	\$ 121,041	\$ 8,994,351	\$ 20,265	\$ 299,677	\$ 9,314,293

See accompanying Notes to Financial Statements.

National Center for Research in Advanced Information and Digital Technologies

**Statement of Cash Flows
For the Year Ended December 31, 2014**

(With Summarized Financial Information for the Year Ended December 31, 2013)

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 2,273,155	\$ 721,544
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities		
Depreciation and Amortization	29,783	2,217
Net Unrealized and Realized Loss on Investments	(35)	(168)
Change in Operating Assets and Liabilities		
(Increase) Decrease in		
Contributions Receivable	9,500	(1,000,000)
Grants Receivable	(1,211,150)	250,038
Due from Digital Promise Global	(21,507)	-
Prepaid Expenses and Other Assets	(7,717)	(4,800)
Increase (Decrease) in		
Accounts Payable	55,267	5,936
Accrued Expenses	46,238	7,305
Deferred Revenue	571,253	-
Net Cash Provided by (Used in) Operating Activities	<u>1,744,787</u>	<u>(17,928)</u>
Cash Flows from Investing Activities		
Proceeds from Redemptions of Certificates of Deposit	100,000	1,000,000
Purchases of Certificates of Deposit	-	(500,007)
Purchases of Property and Equipment	<u>(309,685)</u>	<u>(11,377)</u>
Net Cash (Used in) Provided by Investing Activities	<u>(209,685)</u>	<u>488,616</u>
Net Increase in Cash and Cash Equivalents	1,535,102	470,688
Cash and Cash Equivalents, Beginning of Year	<u>1,223,121</u>	<u>752,433</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,758,223</u>	<u>\$ 1,223,121</u>
Supplemental Disclosures of Cash Flow Information		
Interest Paid	<u>\$ -</u>	<u>\$ 1,238</u>

See accompanying Notes to Financial Statements.

National Center for Research in Advanced Information and Digital Technologies

Notes to Financial Statements December 31, 2014

1. ORGANIZATION

The National Center for Research in Advanced 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.

The Organization's activities are funded primarily through grants and contributions.

The Organization's major programs are:

League of Innovative Schools: national coalition of school districts that fosters collaboration between education leaders and entrepreneurs, researchers and thought leaders.

Adult Education: working to spur the design and development of digital learning tools that address the unique needs of adult learners.

Digital Promise Schools: partnership with Verizon and middle schools to create innovative learning environments.

Marketplace: foster a dynamic and efficient K-12 market where informed consumers and innovative developers collaborate to provide tools that improve the opportunities for all students to learn.

Micro Credentials: a coalition of educators and partners to develop a micro-credential system that provides teachers with the opportunity to gain recognition for the skills they master throughout their careers.

Research: connects research and practice by curating and sharing promising learning science findings, empowering educators and entrepreneurs to develop and enhance digital learning tools, and facilitating interactions between researchers, practitioners and developers.

General Programs: beyond specific initiatives, the Organization works to accelerate the pace of innovation and broadly share stories of excellence in the American education system.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting. Consequently, revenue is recognized when earned and expenses when incurred.

National Center for Research in Advanced Information and Digital Technologies

**Notes to Financial Statements
December 31, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

The Organization considers demand deposits, money market funds and investments with an original maturity of three months or less, when purchased, to be cash and cash equivalents.

Contributions Receivable

Unconditional promises to give that have not been collected as of year-end are recorded as contributions receivable in the accompanying statement of financial position. All contributions receivable are expected to be collected in less than one year and are reported at net realizable value. Allowances are established for receivables that are delinquent and considered uncollectible by management based on periodic reviews. At December 31, 2014, all contributions receivable are assumed to be collectible; therefore, no allowance for doubtful accounts is necessary.

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, 2014 all grants receivable are assumed to be collectible; therefore, no allowance for doubtful accounts is necessary.

Fixed Assets

The Organization capitalizes all fixed asset acquisitions of \$2,500 and above. Fixed assets are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to five years, with no salvage value. Direct costs incurred during the application stage of the development of the Organization's website are capitalized and amortized over the estimated useful life of three years. Maintenance and repairs, including planned major maintenance activities, are charged to expense when incurred; major renewals and betterments are capitalized. Donated fixed assets are recorded at fair market value at the date of donation.

Functional Allocation of Expenses

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

Deferred Revenue

Amounts received under agreements for work to be performed after year end has been accounted for as deferred revenue.

National Center for Research in Advanced Information and Digital Technologies

Notes to Financial Statements December 31, 2014

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue Recognition

The Organization reports contributions and grants as unrestricted and available for general operations, unless specifically restricted by the donor. If such contributions and grants are received with donor stipulations that limit the use of the donated funds for a particular purpose or for a specific period of time, they are reported as temporarily restricted. When the stipulated time restriction ends or the purpose of the restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions and grants that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code) and has been determined by the Internal Revenue Service not to be a private foundation within the meaning of section 509(a) of the Code. The Organization is exempt from the payment of taxes on income other than net unrelated business income. No provision for federal or state income taxes is required as of December 31, 2014 for net unrelated business income.

Accounting for Uncertain Tax Positions

The Organization requires that a tax position be recognized or derecognized based on a “more-likely-than-not” threshold. This applies to positions taken or expected to be taken in a tax return. The Organization does not believe its financial statements include, or reflect, any uncertain tax positions. The Organization’s Form 990 is generally subject to examination by the taxing authorities for three years after filing.

**Notes to Financial Statements
December 31, 2014**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Prior Year Information

The financial statements include certain prior year summarized comparative totals as of and for the year ended December 31, 2013. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended December 31, 2013, from which the summarized information was derived.

Reclassifications

Certain 2013 amounts financial statements have been reclassified for comparative purposes.

3. CONCENTRATIONS

The Organization maintains cash balances at financial institutions in the Washington, DC metropolitan area. The accounts at these institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At times during the year, the Organization's cash balance exceeded the FDIC insurance amount. Management believes the risk in this situation to be minimal.

As of December 31, 2014, approximately 79% of contribution and grants receivable was due from four donors, and approximately 53% of revenue for the year ended December 31, 2014, was from one donor.

4. EMPLOYEE BENEFIT PLAN

The Organization offers a 401(k) retirement plan to their employees (the Plan). The Organization makes a 3% non-elective safe harbor contribution for each employee upon becoming eligible for the Plan with contributions commencing in 2014. For the year ended December 31, 2014, the Organization made a contribution to the Plan on behalf of its employees of approximately \$50,200, which is included in payroll taxes and benefits in the accompanying statement of functional expenses.

National Center for Research in Advanced Information and Digital Technologies

**Notes to Financial Statements
December 31, 2014**

5. LINE OF CREDIT

The Organization has a line of credit for \$200,000 with a bank. It is secured by one of the Organization's bank accounts and has an interest rate of 2.1 percentage points over the lender's prime rate. The line of credit expires May 2016. There were no borrowings on this line of credit during the year ended December 31, 2014.

6. FIXED ASSETS

Fixed assets consisted of the following at December 31, 2014:

Equipment	\$ 6,309
Furniture	5,068
Website	<u>309,685</u>
	321,062
Less: Accumulated Depreciation and Amortization	<u>(32,000)</u>
Fixed Assets, Net	<u>\$ 289,062</u>

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of December 31, 2014:

League of Innovative Schools	\$ 749,057
Procurement Research	477,762
Professional Educator Micro Credentials	1,789,228
Adult Education	818,401
Research	215,535
Time Restricted	<u>87,500</u>
Total Temporarily Restricted Net Assets	<u>\$ 4,137,483</u>

Amounts released from temporarily restricted net assets during the year ended December 31, 2014 were:

League of Innovative Schools	\$ 860,700
Procurement Research	509,940
Professional Educator Micro Credentials	715,777
Adult Education	281,599
Research	134,466
Time Restricted	<u>125,000</u>
Total Amounts Released from Restrictions	<u>\$ 2,627,482</u>

National Center for Research in Advanced Information and Digital Technologies

Notes to Financial Statements December 31, 2014

8. BOARD DESIGNATED NET ASSETS

In 2014, the Organization's Board of Directors adopted a policy of setting aside as a reserve fund 10% of unrestricted net assets. As of December 31, 2014, approximately \$58,900 has been set aside for this purpose.

9. RELATED PARTY TRANSACTIONS

The Organization has an agreement with a related party, Digital Promise Global, to provide administrative services. The Organization charged approximately \$21,600 during the year ended December 31, 2014, under this agreement.

10. OPERATING LEASES

The Organization had an office lease agreement which ended April 2015. The monthly payment under this lease was \$4,200. In 2015, the Organization entered into another non-cancelable lease for office space for the term May 1, 2015 through July 31, 2018. The lease provides for annual rent escalations, the payment of operating expenses, and a period of free rent.

Future minimum lease payments under the new lease are as follows:

For the Years Ended December 31,

2015	\$ 36,567
2016	89,515
2017	92,201
2018	<u>55,009</u>
Total	<u>\$ 273,292</u>

11. COMMITMENTS

The Organization has entered into contracts with facilities in connection with future meetings and conferences. In the event of cancellation by the Organization or if attendance is less than agreed-upon minimum levels, the Organization would be responsible for certain fees. Management does not anticipate cancellation of these events or attendance below minimum levels.

12. IN-KIND CONTRIBUTIONS

The Organization received tablets and data plan services valued at approximately \$5,277,200 pursuant to a grant under its Digital Promise Schools program in the year ended December 31, 2014.

The Organization received donated legal services valued at \$132,000 for the year ended December 31, 2014. Such amounts are recognized as in-kind contributions and have been allocated among General and Administrative and General Program expenses.

National Center for Research in Advanced Information and Digital Technologies

**Notes to Financial Statements
December 31, 2014**

13. SUBSEQUENT EVENTS

Subsequent events were evaluated through July 16, 2015, which is the date the financial statements were available to be issued.