

National Math & Science Initiative, Inc.

Independent Auditor's Reports and Financial Statements

December 31, 2017 and 2016



National Math & Science Initiative, Inc.
December 31, 2017 and 2016

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Independent Auditor's Report

Board of Directors
National Math & Science Initiative, Inc.
Dallas, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of National Math & Science Initiative, Inc. (NMSI), which comprise the statements of financial position as of December 31, 2017 and 2016, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 National Math & Science Initiative, Inc. as of December 31, 2017 and 2016, 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2018, on our consideration of National Math & Science Initiative, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of National Math & Science Initiative, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering National Math & Science Initiative, Inc.'s internal control over financial reporting and compliance.

BKD, LLP

Dallas, Texas
August 30, 2018

National Math & Science Initiative, Inc.
Statements of Activities
Year Ended December 31, 2017

Assets

	<u>2017</u>	<u>2016</u>
Cash and Cash Equivalents	\$ 19,019,268	\$ 24,829,473
Investments	19,050,414	19,170,051
Accounts Receivable - Net	4,267,474	3,747,154
Grants Receivable	5,153,701	3,160,810
Prepaid Expenses	183,834	318,241
Property and Equipment - Net	<u>382,151</u>	<u>468,336</u>
Total Assets	<u>\$ 48,056,842</u>	<u>\$ 51,694,065</u>

Liabilities and Net Assets

Liabilities

Accounts Payable	\$ 1,412,099	\$ 706,024
Grants Payable	1,308,712	1,221,441
Accrued Expenses	709,017	511,681
Deferred Rent	339,514	363,394
Deferred Revenue	<u>148,954</u>	<u>-</u>
Total Liabilities	3,918,296	2,802,540

Net Assets

Unrestricted	13,378,245	12,801,229
Temporarily Restricted	<u>30,760,301</u>	<u>36,090,296</u>
Total Net Assets	<u>44,138,546</u>	<u>48,891,525</u>

Total Liabilities and Net Assets

	<u>\$ 48,056,842</u>	<u>\$ 51,694,065</u>
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National Math & Science Initiative, Inc.
Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue			
Contributions	\$ 219,953	\$ 14,075,584	\$ 14,295,537
Government Grants	12,545,874	-	12,545,874
Fee for Service			
College Readiness Program	7,209,208	-	7,209,208
Laying the Foundation Training	2,014,652	-	2,014,652
Investment Return	206,297	-	206,297
Other Income	28,657	-	28,657
Net Assets Released from Restrictions	<u>19,405,579</u>	<u>(19,405,579)</u>	<u>-</u>
Total Revenue and Other Support	<u>41,630,220</u>	<u>(5,329,995)</u>	<u>36,300,225</u>
Expenses			
Program Services	34,969,628	-	34,969,628
General and Administrative	3,950,173	-	3,950,173
Fundraising	<u>2,133,403</u>	<u>-</u>	<u>2,133,403</u>
Total Expenses	<u>41,053,204</u>	<u>-</u>	<u>41,053,204</u>
Change in Net Assets	577,016	(5,329,995)	(4,752,979)
Net Assets, Beginning of Year	<u>12,801,229</u>	<u>36,090,296</u>	<u>48,891,525</u>
Net Assets, End of Year	<u>\$ 13,378,245</u>	<u>\$ 30,760,301</u>	<u>\$ 44,138,546</u>

National Math & Science Initiative, Inc.
Statements of Activities (Continued)
Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue			
Contributions	\$ 128,218	\$ 21,396,490	\$ 21,524,708
Government Grants	8,335,903	-	8,335,903
Fee for Service			
College Readiness Program	5,723,619	482,466	6,206,085
Laying the Foundation Training	3,117,539	-	3,117,539
Investment Return	82,115	-	82,115
Other Income	55,187	-	55,187
Net Assets Released from Restrictions	<u>19,391,273</u>	<u>(19,391,273)</u>	<u>-</u>
Total Revenue and Other Support	<u>36,833,854</u>	<u>2,487,683</u>	<u>39,321,537</u>
Expenses			
Program Services	31,170,136	-	31,170,136
General and Administrative	3,229,869	-	3,229,869
Fundraising	<u>2,117,516</u>	<u>-</u>	<u>2,117,516</u>
Total Expenses	<u>36,517,521</u>	<u>-</u>	<u>36,517,521</u>
Change in Net Assets	316,333	2,487,683	2,804,016
Net Assets, Beginning of Year	<u>12,484,896</u>	<u>33,602,613</u>	<u>46,087,509</u>
Net Assets, End of Year	<u>\$ 12,801,229</u>	<u>\$ 36,090,296</u>	<u>\$ 48,891,525</u>

National Math & Science Initiative, Inc.
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in Net Assets	\$ (4,752,979)	\$ 2,804,016
Adjustments to Reconcile Change in Net Assets to Net Cash Provided from Operations		
Depreciation Expense	86,185	54,888
Loss on disposal of fixed assets	-	26,155
Unrealized (Gain) loss on Investment Securities	(141,326)	(15,353)
(Gain) Loss on Sale of Investments	-	(19,732)
Decrease (Increase) in Prepaid Expenses and Other	134,407	159,417
Decrease (Increase) in Accounts and Grants Receivable	(2,716,736)	1,657,554
Increase (Decrease) in Accounts Payable and Accrued Expenses	990,682	(651,986)
Increase (Decrease) in Deferred Revenue and Rent	328,599	(185,696)
 Net Cash Provided By (Used In) Operations	 (6,071,168)	 3,829,263
 Cash Flows from Investing Activities		
Purchase of investments	(23,304,037)	(33,795,966)
Proceeds From Sale of Investments	23,565,000	14,661,000
Purchase of fixed assets	-	(409,265)
 Net Cash Flows Provided By (Used In) Investing Activities	 260,963	 (19,544,231)
 Net Decrease in Cash and Cash Equivalents	 (5,810,205)	 (15,714,968)
 Cash and Cash Equivalents, Beginning of Year	 24,829,473	 40,544,441
 Cash and Cash Equivalents, End of Year	 \$ 19,019,268	 \$ 24,829,473

National Math & Science Initiative, Inc.
Statements of Functional Expenses
Year Ended December 31, 2017

	2017							
	Program Services				Supporting Services			
	College Readiness Program	Laying the Foundation	UTeach	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and Benefits	\$ 5,720,724	\$ 397,589	\$ 413,473	\$ 6,531,786	\$ 2,353,195	\$ 1,062,189	\$ 3,415,384	\$ 9,947,170
Professional Services	2,859,265	53,932	284,699	3,197,896	800,563	607,693	1,408,256	4,606,152
Occupancy and Office Expense	1,106,582	90,669	69,150	1,266,401	537,926	131,486	669,412	1,935,813
Depreciation	41,886	5,334	2,474	49,694	27,062	9,429	36,491	86,185
Conference and Meetings	273,609	14,026	58,100	345,735	231,427	322,606	554,033	899,768
Uteach Institute Services	-	-	1,090,000	1,090,000	-	-	-	1,090,000
Payments to Grantees	1,389,597	-	3,443,346	4,832,943	-	-	-	4,832,943
Educator and Student Payments	4,321,668	-	-	4,321,668	-	-	-	4,321,668
Exam Fees and Supplies	800,149	-	-	800,149	-	-	-	800,149
Teacher and Student Training	11,715,554	555,072	139,608	12,410,234	-	-	-	12,410,234
Program Travel	121,571	-	1,551	123,122	-	-	-	123,122
Total Expenses	\$ 28,350,605	\$ 1,116,622	\$ 5,502,401	\$ 34,969,628	\$ 3,950,173	\$ 2,133,403	\$ 6,083,576	\$ 41,053,204

National Math & Science Initiative, Inc.
Statements of Functional Expenses (Continued)
Year Ended December 31, 2016

	2016							
	Program Services				Supporting Services			
	College Readiness Program	Laying the Foundation	UTeach	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Salaries and Benefits	\$ 4,348,876	\$ 536,339	\$ 360,410	\$ 5,245,625	\$ 2,022,065	\$ 1,359,560	\$ 3,381,625	\$ 8,627,250
Professional Services	2,881,890	321,746	554,467	3,758,103	690,107	344,237	1,034,344	4,792,447
Occupancy and Office Expense	818,348	126,485	41,766	986,599	363,807	156,115	519,922	1,506,521
Depreciation	30,709	5,447	1,640	37,796	11,837	5,255	17,092	54,888
Conference and Meetings	215,817	10,199	17,117	243,133	142,053	252,349	394,402	637,535
Uteach Institute Services	-	-	1,316,667	1,316,667	-	-	-	1,316,667
Payments to Grantees	2,478,005	-	3,656,759	6,134,764	-	-	-	6,134,764
Educator and Student Payments	3,747,538	-	-	3,747,538	-	-	-	3,747,538
Exam Fees and Supplies	685,269	-	-	685,269	-	-	-	685,269
Teacher and Student Training	8,358,236	363,754	184,694	8,906,684	-	-	-	8,906,684
Program Travel	96,396	-	11,562	107,958	-	-	-	107,958
Total Expenses	\$ 23,661,084	\$ 1,363,970	\$ 6,145,082	\$ 31,170,136	\$ 3,229,869	\$ 2,117,516	\$ 5,347,385	\$ 36,517,521

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The National Math & Science Initiative, Inc. (NMSI) is a nonprofit organization created in February 2006, to facilitate the national scale up of programs that have a demonstrated impact on math and science education in the United States of America.

NMSI currently has three programs aimed at impacting STEM (Science, Technology, Engineering and Math) education. NMSI's College Readiness Program encourages excellence among teachers and students of Pre Advanced Placement™ (Pre AP®) and Advanced Placement™ (AP®) courses. The UTeach Expansion Program encourages math and science majors to enter the teaching profession by offering compact degrees and financial assistance for undergraduates. Laying the Foundation provides content-based training aimed at improving teacher effectiveness.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

The financial statement presentation follows the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958, *Not for Profit Entities*. Under FASB ASC 958, NMSI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Net assets, contributions, expenses, gains and losses are classified based on the existence or absence of donor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.
- Unrestricted net assets - net assets that are not subject to donor imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the board of directors.
- Temporarily restricted net assets - net assets that are subject to donor imposed stipulations that may or will be met by the occurrence of a specific event or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.
- Permanently restricted net assets - net assets required to be maintained in perpetuity, due to donor imposed restrictions, with generally only the income used for general or specific purposes. Generally, the donors of these assets permit NMSI to use all or part of the income earned on related investments for general or specified purposes. There were no permanently restricted net assets in 2017 and 2016.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

NMSI reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Absent explicit donor stipulations about how long those long-lived assets must be maintained, NMSI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Use of Estimates

In preparing NMSI's financial statements in accordance with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

NMSI considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 2017 and 2016, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

NMSI maintains cash balances at a commercial financial institution in Dallas, Texas, which at times, including as of December 31, 2017, exceeded federally insured limits. NMSI has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments and Investment Return

Investments in all debt securities and equity securities having a readily determinable fair value are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Grants and Accounts Receivable

Grants and accounts receivables are primarily from services or goods provided to various school districts, government agencies or other organizations and from grantors. Receivables are carried as the original invoice amount less an estimate made for doubtful receivables based on management's review of receivables, historical collection experience, communications with counterparties and other known factors anticipated to affect collections. The allowance for uncollectible receivables was \$8,659 and \$3,376 as of December 31, 2017 and 2016, respectively.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

Property and Equipment

Property and equipment consists of computer equipment and software, furniture and equipment, leasehold improvements and trademarks. NMSI capitalizes all expenditures for property and equipment in excess of \$5,000 and a useful life greater than one year.

Property and equipment are carried at cost as of the date of acquisition or fair value as of the date of donation, less accumulated depreciation and amortization. Depreciation of property and equipment is computed on a straight-line basis over the estimated useful lives of the assets.

Leasehold improvements are amortized on a straight-line basis over the shorter of the estimated useful life of the asset or the term of the lease.

Costs of software development are capitalized when incurred in accordance with GAAP.

Promises to Give

In accordance with FASB ASC 958, unconditional promises to give are to be recognized as contributions in the period received and as assets, decreases in liabilities or decreases in expenses depending on the form of the benefits received. Conditional promises to give are to be recognized only when the conditions on which they depend are substantially met and the promise becomes unconditional.

NMSI records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at the present value of their estimated cash flows. The discounts on those amounts are computed at the date of gift using risk-adjusted interest rates applicable to the years in which the promises are expected to be received. Accretion of the discounts is recognized as contribution revenue using a method that approximates the effective interest rate method.

As of December 31, 2017, NMSI had one receivable expected to be collected over a period greater than one year. The discount for this receivable was calculated at \$12,100. In 2016, there were no receivables for future periods greater than one year and therefore no discount was calculated.

Revenue Recognition

Grant revenue is recognized as grant terms are fulfilled. Contributions and grants are considered to be available for unrestricted purposes unless restricted by the donor for specific purposes. Service revenues are recognized when goods or services have been provided to customers and collection of payment is realizable.

Revenue from fee for service for NMSI's College Readiness Program and Laying the Foundation training is deferred and recognized over the periods to which the fees relate. Private contributions and school district contributions temporarily restricted for these programs are shown with the program fee for service, when applicable.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

Government Grants

Support funded by grants is recognized as NMSI performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes

NMSI is exempt from federal income tax under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3), except to the extent it has unrelated business income. Accordingly, no provision for income tax has been provided in the accompanying financial statements. Taxing authorities may review NMSI's prior year's Form 990 for the years 2014, 2015 and 2016.

Functional Allocation of Expenses

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Salaries and related payroll expenses are recorded based on actual segregation of personnel by program or supporting services benefited. Distribution of all other expenses is based on actual usage or management's estimate of usage applicable to the various programs and supporting services benefited.

Note 2: Grant Commitments

NMSI receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of NMSI are prepared on the accrual basis, all earned portions of the grants not yet received as of December 31, 2017 and 2016, have been recorded as receivables. For the fiscal year ended December 31, 2017 and 2016, \$5,153,701 and \$3,160,810, respectively, was accrued as grants receivable.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

Note 3: Investments and Investment Return

Investments at December 31 consisted of the following:

	2017	2016
US Treasury securities	\$ 16,571,743	\$ 17,370,389
Equity securities	4,985	-
Negotiable certificates of deposit	2,473,686	1,799,662
	\$ 19,050,414	\$ 19,170,051

Total investment return at December 31 is comprised of the following:

	2017	2016
Interest Income	\$ 64,971	\$ 47,030
Net realized and unrealized gains on investments reported at fair value	141,326	35,085
	\$ 206,297	\$ 82,115

Note 4: Property and Equipment

Property and equipment at December 31 consisted of the following:

	2017	2016	Estimated Useful Lives
Leasehold improvements	\$ 418,365	\$ 418,365	7 years
Furniture and equipment	222,702	222,702	3–7 years
Computer equipment and software	37,402	37,402	2–5 years 55 months
Total	678,469	678,469	
Less accumulated depreciation and amortization	(296,318)	(210,133)	
Property and equipment, net	\$ 382,151	\$ 468,336	

Depreciation and amortization expense for the years ended December 31, 2017 and 2016, was \$86,165 and \$54,888, respectively.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

Note 5: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets totaled \$30,760,301 and \$36,090,296 for December 31, 2017 and 2016, respectively. Temporarily restricted net assets were restricted for the purposes below. Net assets were released from donor restriction by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors during the year ended:

	Temporarily Restricted Net Assets	Amounts Released From Restriction
December 31, 2017		
College Readiness Program	\$ 19,047,487	\$ 12,319,496
Laying the Foundation	92,286	21,342
UTeach Expansion	11,027,118	5,833,795
Other	593,410	1,230,946
	<u>30,760,301</u>	<u>19,405,579</u>
Total	<u>\$ 30,760,301</u>	<u>\$ 19,405,579</u>
December 31, 2016		
College Readiness Program	\$ 21,970,759	\$ 10,634,750
Laying the Foundation	33,628	46,400
Uteach Expansion	12,940,913	6,575,382
Other	1,144,996	2,134,741
	<u>36,090,296</u>	<u>19,391,273</u>
Total	<u>\$ 36,090,296</u>	<u>\$ 19,391,273</u>

Note 6: Grant Disbursements

NMSI awards grants to recipients to fund the College Readiness Program and The UTeach Expansion Program. These grants are conditional upon the recipients meeting applicable benchmarks established by NMSI at the time the grants are awarded. NMSI records these conditional promises to give as grant expense when they become unconditional, that is, when conditions are substantially met. NMSI had outstanding grant commitments of \$1,308,712 and \$1,221,441 as of December 31, 2017 and 2016, respectively. During 2017 and 2016, \$4,832,668 and \$6,134,764, respectively, was disbursed for grants that became unconditional due to benchmarks being met.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note 7: Operating Leases

NMSI leases office space in Dallas, Texas. NMSI entered into a 92-month lease on August 1, 2012. This lease was amended in May 2016 (effective as of November 1, 2016), which reduced the square footage and extended the lease period to 2023. Under the operating lease agreement, in effect for years 2012 to 2020, NMSI received free rent for the first eight months of the lease and then will make a monthly payment that increases each year. With the amendment, the effective rate was adjusted for the new lease terms and the new amount expensed each month is \$35,187. The difference between actual rent payments and the estimated average annual rent is recorded as a deferred rent liability. The total office lease expense for 2017 and 2016, was \$537,217 and \$562,431, respectively, which includes operating costs required to be paid by the lease agreement.

The following schedule is the estimated future minimum rental commitments under all noncancellable leases having terms in excess of a year as of the year ended December 31, 2017:

	<u>Office Space</u>
2018	\$ 433,976
2019	444,030
2020	454,173
2021	464,587
2022	474,190
Thereafter	<u>402,140</u>
Total minimum lease payments	<u>\$ 2,673,096</u>

NMSI has non-cancellable obligations to lease certain office equipment. These operating leases do not include free or escalating rent clauses and are expensed when paid monthly.

Note 8: Profit-sharing Plan

NMSI has a 401(k) profit-sharing plan covering substantially all full time employees. NMSI matches employee deferrals, up to 6% of compensation. Contributions to the plan were \$341,830 and \$305,439 for 2017 and 2016, respectively.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2017 and 2016

Note 9: Disclosures About Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2017 and 2016.

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2017				
U.S. Treasury Securities	\$ 16,571,743	\$ -	\$ 16,571,743	\$ -
Equity securities	4,985	4,985	-	-
Certificates of deposits	2,473,686	-	2,473,696	-
December 31, 2016				
U.S. Treasury Securities	\$ 17,370,389	\$ -	\$ 17,370,389	\$ -
Certificates of deposits	1,799,662	-	1,799,662	-

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2017 and 2016

The following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2017.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. NMSI did not hold any Level 3 investments at December 31, 2017 or 2016.

Note 10: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Grants and Contributions

During the year ended December 31, 2017, approximately 34.6% of total revenues and other support received were grants from government agencies and approximately 12.4% were contributions received from one donor. In addition, 91% of grant receivables at December 31, 2017, were from governmental agencies.

During the year ended December 31, 2016, approximately 21% of total revenues and other support received were grants from government agencies and approximately 44% were contributions from two donors. In addition, 100% of grant receivables at December 31, 2016, were from governmental agencies.

Note 11: Subsequent Events

Subsequent events have been evaluated through August 30, 2018, which is the date the financial statements were available to be issued.

Supplementary Information

National Math & Science Initiative, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Grantor Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Department of Education				
Direct Programs				
Supporting Effective Educator Development Program	84.423A	U423A170060	\$ -	\$ 26,542
<i>Investing in Innovation (i3) Fund</i>				
Investing in Innovation (i3) Fund	84.411A	U411A150009	-	4,171,066
Investing in Innovation (i3) Fund	84.411B	U411B110004	243,988	347,613
<i>Total Investing in Innovation (i3) Fund</i>			<u>243,988</u>	<u>4,518,679</u>
Total Department of Education			<u>243,988</u>	<u>4,545,221</u>
Department of Defense				
Direct Programs				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556	FA7000-16-2-0020, H1254-15-1-0058	866,397	4,932,785
Invitational Grants for Military-Connected Schools	12.557	H1254-11-1-0001	411,808	3,200,465
Total Department of Defense			<u>1,278,205</u>	<u>8,133,250</u>
			<u>\$ 1,522,193</u>	<u>\$ 12,678,471</u>

National Math & Science Initiative, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2017

Notes to Schedule

1. The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of National Math & Science Initiative, Inc. (NMSI) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NMSI, it is not intended to and does not present the financial position, changes in net assets or cash flows of NMSI.
2. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. NMSI has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

Independent Auditor's Report

Audit Committee
National Math & Science Initiative, Inc.
Dallas, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of National Math & Science Initiative, Inc. (NMSI), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NMSI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMSI's internal control. Accordingly, we do not express an opinion on the effectiveness of NMSI's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of NMSI's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NMSI's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
August 30, 2018

Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance

Independent Auditor's Report

Audit Committee
National Math & Science Initiative, Inc.
Dallas, Texas

Report on Compliance for the Major Federal Program

We have audited National Math & Science Initiative, Inc.'s (NMSI) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on NMSI's major federal program for the year ended December 31, 2017. NMSI's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for NMSI's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the NMSI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of NMSI's compliance.

Opinion on the Major Federal Program

In our opinion, NMSI complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of NMSI is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered NMSI's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of NMSI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
August 30, 2018

National Math & Science Initiative, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2017

Summary of Auditor's Results

Financial Statements

1. The type of report the auditor issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) was:
 Unmodified Qualified Adverse Disclaimer

2. The independent auditor's report on internal control over financial reporting disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

3. Noncompliance considered material to the financial statements was disclosed by the audit?
 Yes No

Federal Awards

4. The independent auditor's report on internal control over compliance for the major federal award program disclosed:
Significant deficiency(ies)? Yes None reported
Material weakness(es)? Yes No

5. The opinion expressed in the independent auditor's report on compliance for the major federal award program was:
 Unmodified Qualified Adverse Disclaimer

6. The audit disclosed findings required to be reported by 2 CFR 200.516(a)?
 Yes No

National Math & Science Initiative, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017

7. The Organization's major program was:

Name of Program	CFDA Number
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556

8. The threshold used to distinguish between Type A and Type B programs was \$750,000.

9. The Organization qualified as a low-risk auditee? Yes No

National Math & Science Initiative, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2017

Findings Required to be Reported by *Government Auditing Standards*

Reference Number	Finding
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No matters are reportable.

Findings Required to be Reported by the Uniform Guidance

Reference Number	Finding
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No matters are reportable.

National Math & Science Initiative, Inc.
Summary Schedule of Prior Audit Findings
Year Ended December 31, 2017

Reference Number	Summary of Finding	Status
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No matters are reportable