

National Math & Science Initiative, Inc.

Independent Auditor's Reports and Financial Statements

December 31, 2015 and 2014



National Math & Science Initiative, Inc.
December 31, 2015 and 2014

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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., which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 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 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 National Math & Science Initiative, Inc. as of December 31, 2015, 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.

Prior Year Audited by Other Auditors

The 2014 financial statements were audited by other auditors and their report thereon, dated September 11, 2015, expressed an unmodified opinion.

Supplementary Information

Our audit was 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 24, 2016, 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 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 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 24, 2016

National Math & Science Initiative, Inc.
Statements of Financial Position
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Cash and Cash Equivalents	\$ 40,544,441	\$ 22,337,630
Investments	-	5,028
Accounts Receivable - Net	3,664,753	2,982,356
Grants Receivable - Discounted	4,900,765	4,970,063
Prepaid Expenses	477,658	180,137
Property and Equipment - Net	<u>140,114</u>	<u>361,229</u>
Total Assets	<u>\$ 49,727,731</u>	<u>\$ 30,836,443</u>

Liabilities and Net Assets

Liabilities

Accounts Payable	\$ 533,697	\$ 71,719
Grants Payable	1,857,937	1,719,022
Accrued Expenses	699,498	661,857
Deferred Rent	279,845	305,100
Deferred Revenue	<u>269,245</u>	<u>51,375</u>
Total Liabilities	3,640,222	2,809,073

Net Assets

Unrestricted	12,484,896	6,068,334
Temporarily Restricted	<u>33,602,613</u>	<u>21,959,036</u>
Total Net Assets	<u>46,087,509</u>	<u>28,027,370</u>

Total Liabilities and Net Assets

	<u>\$ 49,727,731</u>	<u>\$ 30,836,443</u>
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National Math & Science Initiative, Inc.
Statement of Activities
Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue			
Contributions	\$ 5,154,570	\$ 27,152,525	\$ 32,307,095
Government Grants	9,214,541	-	9,214,541
Fee for Service			
College Readiness Program	4,411,081	1,096,546	5,507,627
Laying the Foundation Training	4,011,968	-	4,011,968
Investment	39,139	-	39,139
Other Income	2,034,449	-	2,034,449
Net Assets Released from Restrictions	<u>16,605,494</u>	<u>(16,605,494)</u>	<u>-</u>
Total Revenue and Other Support	41,471,242	11,643,577	53,114,819
Expenses			
Program Services	30,233,961	-	30,233,961
General and Administrative	3,557,951	-	3,557,951
Fundraising	<u>1,262,768</u>	<u>-</u>	<u>1,262,768</u>
Total Expenses	<u>35,054,680</u>	<u>-</u>	<u>35,054,680</u>
Change in Net Assets	6,416,562	11,643,577	18,060,139
Net Assets, Beginning of Year	<u>6,068,334</u>	<u>21,959,036</u>	<u>28,027,370</u>
Net Assets, End of Year	<u><u>\$ 12,484,896</u></u>	<u><u>\$ 33,602,613</u></u>	<u><u>\$ 46,087,509</u></u>

National Math & Science Initiative, Inc.
Statement of Activities
Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue			
Contributions	\$ 3,348,923	\$ 16,173,563	\$ 19,522,486
Government Grants	9,266,888	-	9,266,888
Fee for Service			
College Readiness Program	3,229,323	600,603	3,829,926
Laying the Foundation Training	5,266,257	-	5,266,257
Investment	-	-	-
Other Income	166,579	-	166,579
Net Assets Released from Restrictions	<u>10,815,868</u>	<u>(10,815,868)</u>	<u>-</u>
Total Revenue and Other Support	32,093,838	5,958,298	38,052,136
Expenses			
Program Services	26,024,328	-	26,024,328
General and Administrative	3,980,390	-	3,980,390
Fundraising	<u>803,398</u>	<u>-</u>	<u>803,398</u>
Total Expenses	<u>30,808,116</u>	<u>-</u>	<u>30,808,116</u>
Change in Net Assets	1,285,722	5,958,298	7,244,020
Net Assets, Beginning of Year	<u>4,782,612</u>	<u>16,000,738</u>	<u>20,783,350</u>
Net Assets, End of Year	<u><u>\$ 6,068,334</u></u>	<u><u>\$ 21,959,036</u></u>	<u><u>\$ 28,027,370</u></u>

National Math & Science Initiative, Inc.
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 18,060,139	\$ 7,244,020
Adjustments to Reconcile Change in Net Assets to Net Cash Provided from Operations		
Depreciation Expense	221,114	448,608
Contributed Stock	-	(858,658)
Unrealized Losses on Investment Securities	-	60
(Gain) Loss on Sale of Investments	1,427	(2,232)
Decrease (Increase) in Prepaid Expenses and Other	(258,467)	(54,466)
Decrease (Increase) in Accounts and Grants Receivable	(613,099)	(2,275,102)
Increase (Decrease) in Accounts Payable and Accrued Expenses	599,480	888,159
Increase (Decrease) in Deferred Revenue and Rent	<u>192,615</u>	<u>(490,366)</u>
Net Cash Provided By Operations	<u>18,203,209</u>	<u>4,900,023</u>
Cash Flows from Investing Activities		
Proceeds From Sale of Investments	<u>3,602</u>	<u>855,802</u>
Net Cash Flows Provided By Investing Activities	<u>3,602</u>	<u>855,802</u>
Net Increase in Cash and Cash Equivalents	18,206,811	5,755,825
Cash and Cash Equivalents, Beginning of Year	<u>22,337,630</u>	<u>16,581,805</u>
Cash and Cash Equivalents, End of Year	<u>\$ 40,544,441</u>	<u>\$ 22,337,630</u>
Non Cash Investing Activity		
Donation of Stock	\$ -	\$ 858,658

National Math & Science Initiative, Inc.
Statement of Functional Expenses
Year Ended December 31, 2015

	2015							
	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	\$ 3,272,817	\$ 961,650	\$ 329,067	\$ 4,563,534	\$ 2,377,221	\$ 822,970	\$ 3,200,191	\$ 7,763,725
Professional Services	2,648,452	487,932	388,505	3,524,889	637,426	144,665	782,091	4,306,980
Occupancy and Office Expense	586,316	286,236	19,490	892,042	358,431	90,882	449,313	1,341,355
Depreciation	107,968	60,316	2,426	170,710	41,150	9,254	50,404	221,114
Conference and Meetings	138,722	9,344	12,908	160,974	143,723	194,997	338,720	499,694
Uteach Institute Services	-	-	1,441,666	1,441,666	-	-	-	1,441,666
Payments to Grantees	4,461,594	-	3,011,987	7,473,581	-	-	-	7,473,581
Educator and Student Payments	4,206,349	71,130	-	4,277,479	-	-	-	4,277,479
Exam Fees and Supplies	924,887	3,406	-	928,293	-	-	-	928,293
Teacher and Student Training	5,406,544	1,038,081	153,466	6,598,091	-	-	-	6,598,091
Program Travel	191,116	-	11,586	202,702	-	-	-	202,702
Total Expenses	\$ 21,944,765	\$ 2,918,095	\$ 5,371,101	\$ 30,233,961	\$ 3,557,951	\$ 1,262,768	\$ 4,820,719	\$ 35,054,680

National Math & Science Initiative, Inc.
Statement of Functional Expenses
Year Ended December 31, 2014

	2014							
	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	\$ 2,797,451	\$ 1,556,504	\$ 237,171	\$ 4,591,126	\$ 2,475,555	\$ 511,074	\$ 2,986,629	\$ 7,577,755
Professional Services	669,602	-	32,300	701,902	722,590	58,949	781,539	1,483,441
Occupancy and Office Expense	286,686	221,491	20,752	528,929	447,011	73,989	521,000	1,049,929
Depreciation	147,854	126,074	8,671	282,599	131,237	34,772	166,009	448,608
Travel and Meetings	264,784	13,432	60,951	339,167	203,997	124,614	328,611	667,778
Third-Party Providers	-	-	851,667	851,667	-	-	-	851,667
Partners Program Expense	4,352,006	-	1,724,373	6,076,379	-	-	-	6,076,379
Educator and Student Payments	4,601,615	-	-	4,601,615	-	-	-	4,601,615
Exam Fees and Supplies	1,859,316	44,650	-	1,903,966	-	-	-	1,903,966
Teacher and Student Training	3,803,002	2,343,976	-	6,146,978	-	-	-	6,146,978
Total Expenses	\$ 18,782,316	\$ 4,306,127	\$ 2,935,885	\$ 26,024,328	\$ 3,980,390	\$ 803,398	\$ 4,783,788	\$ 30,808,116

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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.

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 the 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.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

- 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 2015 and 2014.

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 maintains cash balances at a commercial financial institution in Dallas, Texas, which at times, including as of December 31, 2015, 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.

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 \$14,063 and \$15,927 as of December 31, 2015 and 2014, respectively.

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.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

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 generally accepted accounting principles.

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, 2015, there were no grant receivables for future periods greater than one year and therefore no discount was calculated.

As of December 31, 2014, there were two grant receivables for future periods greater than one year. The net present value discount for these grants was \$3,041.

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 temporarily restricted for these programs are shown with the program fee for service.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Contributed Services

Contributed services are reflected in the financial statements at the fair market value of the services received. The contributions of services are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no contributed or in-kind contributions recorded during 2015 or 2014.

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 2012, 2013 and 2014.

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.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the change in net assets.

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, 2015 and 2014, have been recorded as receivables. For the fiscal year ended December 31, 2015 and 2014, \$4,900,765 and \$4,970,063, respectively, was accrued as grants receivable.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2015 and 2014

Note 3: Property and Equipment

Property and equipment at December 31, consists of:

	2015	2014	Estimated Useful Lives
Leasehold improvements	\$ 74,175	\$ 101,703	5 years
Furniture and equipment	426,186	654,369	3–7 years
Computer equipment and software	585,867	3,586,660	2–5 years
Trademarks	240	7,675	55 months
Total	<u>1,086,468</u>	<u>4,350,407</u>	
Less accumulated depreciation and amortization	(946,354)	(3,989,178)	
Property and equipment, net	<u>\$ 140,114</u>	<u>\$ 361,229</u>	

Depreciation and amortization expense for the years ended December 31, 2015 and 2014, was \$221,114 and \$448,608, respectively.

Note 4: Net Assets

Temporarily Restricted Net Assets

Temporarily restricted net assets totaled \$33,602,613 and \$21,959,036 for December 31, 2015 and 2014, 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:

December 31, 2015	Temporarily Restricted Net Assets	Amounts Released From Restriction
College Readiness Program	\$ 17,726,551	\$ 8,548,968
Laying the Foundation	80,028	234,837
UTeach Expansion	12,516,295	5,289,340
Other	3,279,739	2,532,349
Total	<u>\$ 33,602,613</u>	<u>\$ 16,605,494</u>
December 31, 2014	Temporarily Restricted Net Assets	Amounts Released From Restriction
College Readiness Program	\$ 7,925,170	\$ 7,299,811
Laying the Foundation	186,145	672,581
Uteach Expansion	11,035,635	2,566,324
Other	2,812,086	277,152
Total	<u>\$ 21,959,036</u>	<u>\$ 10,815,868</u>

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 5: Conditional 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 conditional grant commitments of \$647,986 and \$1,719,022 as of December 31, 2015 and 2014, respectively. During 2015 and 2014, \$6,825,595 and \$4,317,616, respectively, was disbursed for grants that became unconditional due to benchmarks being met.

Note 6: Operating Leases

NMSI leases office space in Dallas, Texas. NMSI entered into a 92-month lease on August 1, 2012. 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. The effective rate that will be expensed each month is \$39,155. 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 Dallas for 2015 and 2014, was \$581,091 and \$479,516, 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 noncancelable leases having terms in excess of a year as of the year ended December 31, 2015:

	<u>Office Space</u>	<u>Equipment</u>
2016	\$ 510,704	\$ 18,823
2017	526,298	11,301
2018	541,892	11,301
2019	557,486	5,651
2020	140,346	-
Total minimum lease payments	<u>\$ 2,276,726</u>	<u>\$ 47,076</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.

Subsequent to December 31, 2015, NMSI amended their office space lease with terms that reduced the amount of space leased and extended the term. Per the amendment, the reduction effective date shall be the date which the demising work has been substantially completed and NMSI has vacated the surrender space. The estimate above does not consider this amendment in the calculation.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2015 and 2014

Note 7: Profit-sharing Plan

NMSI has a 401(k) profit-sharing plan covering substantially all full time employees. NMSI's discretionary contributions to the plan are determined annually by the Board of Directors and NMSI's matches employee deferrals, up to 6% of compensation. Contributions to the plan were \$285,189 and \$282,351 for 2015 and 2014, respectively.

Note 8: 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:

Contributions

During the year ended December 31, 2015, 17.3% of contributions were received from government agencies and 27.9% of contributions was received from one donor. In addition, approximately 85.8% of grant receivables at December 31, 2015, were from governmental agencies.

During the year ended December 31, 2014, 24% of contributions were received from government agencies. In addition, approximately 72% of grant receivables at December 31, 2014, were from governmental agencies.

Litigation

NMSI is subject to other claims and lawsuits that arose primarily in the ordinary course of its activities. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position, change in net assets and cash flows of NMSI. Events could occur that would change this estimate materially in the near term.

Note 9: Subsequent Events

Subsequent events have been evaluated through August 24, 2016, 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, 2015

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				
Investing in Innovation (i3) Fund	84.411B	U411B110004	\$ 3,823,271	\$ 4,367,467
Teacher Quality Program—ARRA	84.405A	U405A1000055	-	271,801
Total Department of Education			<u>3,823,271</u>	<u>4,639,268</u>
Department of Defense				
Direct Program				
Basic and Applied Scientific Research	12.300	N00014-11-1-0930	-	232,072
Invitational Grants for Military-Connected Schools	12.557	N00014-11-1-0930	113,361	3,887,527
Total Department of Defense			<u>113,361</u>	<u>4,119,599</u>
Total Federal Awards Expended			<u>\$ 3,936,632</u>	<u>\$ 8,758,867</u>

National Math & Science Initiative, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2015

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, 2015. 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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. NMSI has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

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

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, 2015, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 24, 2016.

Internal Control Over Financial Reporting

Management of NMSI is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered NMSI's 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 of 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 NMSI's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Dallas, Texas
August 24, 2016

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, 2015. 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, contracts 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 of its major federal program for the year ended December 31, 2015.

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 the Organization'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 24, 2016

National Math & Science Initiative, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2015

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, 2015

7. The Organization's major program was:

<u>Name of Program</u>	<u>CFDA Number</u>
Investing in Innovation (i3) Fund	84.411B

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, 2015

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, 2015

Reference Number	Summary of Finding	Status
2014 – 001	<p>Federal Program: Initiative for Military Families Cluster</p> <p>CFDA Nos.: 12.300, 12.557</p> <p>Agency: Department of Defense (DOD)</p> <p>Federal Compliance Requirement: Activities Allowed and Allowable Costs</p> <p>Finding Type: Noncompliance and significant deficiency in internal control</p> <p>Criteria or Specific Requirement: Per OMB Circular A-133 §___.300(b), entities shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.</p> <p>In addition, per the Indirect Cost Rate agreement in place, the indirect costs distribution base should be calculated as follows: Distribution base = Total direct costs excluding equipment, capital expenditures, participant support costs, pass-through funds and the portion of each subaward (subcontract or subgrant) above \$25,000 (each award; each year).</p> <p>Condition We noted that management did not implement adequate control activities over the calculation of indirect costs to be charged for this major program to ensure the calculation is performed in accordance with the Indirect Cost Rate Agreement in place.</p> <p>Additionally, we noted that management did not track and calculate the indirect costs charged to this program in accordance with the Indirect Costs Rate Agreement during the fiscal year. During the course of the audit, management provided a calculation of the indirect costs base and amounts. Upon review of the calculation provided by management, we noted that the indirect costs rate base used in the calculation was not appropriate resulting in actual indirect costs charged to this major program being more than allowed.</p> <p>Questioned Costs Indirect Costs (\$705)</p>	Resolved

National Math & Science Initiative, Inc.
Summary Schedule of Prior Audit Findings (Continued)
Year Ended December 31, 2015

Reference Number	Summary of Finding	Status
2014 – 002	<p><i>Federal Program:</i> Initiative for Military Families Cluster</p> <p><i>CFDA Nos.:</i> 12.300, 12.557</p> <p><i>Agency:</i> Department of Defense (DOD)</p> <p><i>Federal Compliance Requirement:</i> Reporting</p> <p><i>Finding Type:</i> Significant deficiency in internal control</p> <p><i>Criteria or Specific Requirement:</i> Per OMB Circular A-133 §___.300(b), entities shall maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.</p> <p>In addition, in accordance with the grant agreement, NMSI is required to submit quarterly completed reporting forms SF425 in accordance with the SF425 instructions, which can be found at https://www.whitehouse.gov/sites/default/files/omb/grants/approved_forms/sf-425-instructions.pdf.</p> <p><i>Condition</i> We obtained two (the SF 425 report covering the quarterly period ending on March 31, 2014, and the SF 425 report covering the period ending on December 31, 2014) of the four required quarterly SF 425 reports. Per review of the selected reports, we noted three exceptions.</p>	Resolved