

National Math & Science Initiative, Inc.

Independent Auditor's Reports and Financial Statements

December 31, 2019 and 2018



National Math & Science Initiative, Inc.
December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, 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, 2019 and 2018, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As described in *Note 1* to the financial statements, in 2019, National Math and Science Initiative, Inc. adopted Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made* and Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to these matters.

Other Matters

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*, as listed in the table of contents, 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 September 23, 2020, 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
September 23, 2020

National Math & Science Initiative, Inc.
Statements of Financial Position
December 31, 2019 and 2018

Assets

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 11,925,967	\$ 13,615,772
Investments	11,983,202	16,704,584
Accounts Receivable - Net	2,506,007	2,390,956
Grants Receivable	5,048,679	4,052,223
Prepaid Expenses	315,710	468,422
Property and Equipment - Net	<u>217,455</u>	<u>295,973</u>
 Total Assets	 <u>\$ 31,997,020</u>	 <u>\$ 37,527,930</u>

Liabilities and Net Assets

Liabilities

Accounts Payable	\$ 946,911	\$ 884,251
Grants Payable	572,861	857,043
Accrued Expenses	804,359	807,023
Deferred Rent	261,594	305,580
Deferred Revenue	<u>136,565</u>	<u>1,109,414</u>
 Total Liabilities	 2,722,290	 3,963,311

Net Assets

Without Donor Restrictions	14,609,592	14,250,523
With Donor Restrictions	<u>14,665,138</u>	<u>19,314,096</u>
 Total Net Assets	 <u>29,274,730</u>	 <u>33,564,619</u>

Total Liabilities and Net Assets

<u>\$ 31,997,020</u>	<u>\$ 37,527,930</u>
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National Math & Science Initiative, Inc.
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ 76,105	\$ 8,149,242	\$ 8,225,347
Government Grants	20,676,581	1,200,000	21,876,581
Fee for Service			
College Readiness Program	9,838,235	-	9,838,235
Laying the Foundation Training	530,705	-	530,705
Investment Return	443,362	-	443,362
Other Income	1,587	-	1,587
Net Assets Released from Restrictions	13,998,200	(13,998,200)	-
	<u>45,564,775</u>	<u>(4,648,958)</u>	<u>40,915,817</u>
Total Revenue and Other Support			
Expenses			
Program Service Expense			
College Readiness Program	34,168,685	-	34,168,685
Laying the Foundation Program	602,335	-	602,335
Teacher Pathways	2,847,429	-	2,847,429
AlignEd	1,263,658	-	1,263,658
Total Program Expenses	<u>38,882,107</u>	<u>-</u>	<u>38,882,107</u>
Supporting Service Expense			
General and Administrative	4,528,755	-	4,528,755
Fundraising	1,794,844	-	1,794,844
Total Support Expenses	<u>6,323,599</u>	<u>-</u>	<u>6,323,599</u>
Total Expenses	<u>45,205,706</u>	<u>-</u>	<u>45,205,706</u>
Change in Net Assets	359,069	(4,648,958)	(4,289,889)
Net Assets, Beginning of Year	<u>14,250,523</u>	<u>19,314,096</u>	<u>33,564,619</u>
Net Assets, End of Year	<u>\$ 14,609,592</u>	<u>\$ 14,665,138</u>	<u>\$ 29,274,730</u>

National Math & Science Initiative, Inc.
Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support			
Contributions	\$ 76,639	\$ 7,529,185	\$ 7,605,824
Government Grants	17,306,642	-	17,306,642
Fee for Service			
College Readiness Program	8,808,996	-	8,808,996
Laying the Foundation Training	1,293,357	-	1,293,357
Investment Return	422,738	-	422,738
Other Income	95,818	-	95,818
Net Assets Released from Restrictions	18,975,390	(18,975,390)	-
Total Revenue and Other Support	46,979,580	(11,446,205)	35,533,375
Expenses			
Program Service Expense			
College Readiness Program	32,978,193	-	32,978,193
Laying the Foundation Program	547,453	-	547,453
UTeach	5,709,483	-	5,709,483
Total Program Expenses	39,235,129	-	39,235,129
Supporting Service Expense			
General and Administrative	4,897,229	-	4,897,229
Fundraising	1,974,944	-	1,974,944
Total Support Expenses	6,872,173	-	6,872,173
Total Expenses	46,107,302	-	46,107,302
Change in Net Assets	872,278	(11,446,205)	(10,573,927)
Net Assets, Beginning of Year	13,378,245	30,760,301	44,138,546
Net Assets, End of Year	\$ 14,250,523	\$ 19,314,096	\$ 33,564,619

National Math & Science Initiative, Inc.
Statement of Functional Expenses
Year Ended December 31, 2019

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total</u>	
	<u>College Readiness Program</u>	<u>Laying the Foundation</u>	<u>Teacher Pathways</u>	<u>AlignEd</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>		<u>Total Supporting Services</u>
Salaries and Benefits	\$ 6,610,191	\$ 255,005	\$ 320,873	\$ 291,414	\$ 7,477,483	\$ 3,277,712	\$ 1,192,504	\$ 4,470,216	\$ 11,947,699
Professional Services	2,232,161	41,404	68,440	-	2,342,005	272,242	293,797	566,039	2,908,044
Occupancy and Office Expense	1,345,835	59,996	59,039	11,534	1,476,404	526,888	84,084	610,972	2,087,376
Depreciation	51,979	2,104	1,948	-	56,031	17,733	4,754	22,487	78,518
Conference and Meetings	413,161	7,394	76,192	2,928	499,675	434,180	219,705	653,885	1,153,560
Uteach Institute Services	439,870	-	430,000	296,053	1,165,923	-	-	-	1,165,923
Payments to Grantees	1,195,828	-	1,888,197	-	3,084,025	-	-	-	3,084,025
Educator and Student Payments	4,937,158	-	-	105,300	5,042,458	-	-	-	5,042,458
Exam Fees and Supplies	1,331,564	-	-	39,822	1,371,386	-	-	-	1,371,386
Teacher and Student Training	15,454,886	236,432	2,740	516,607	16,210,665	-	-	-	16,210,665
Program Travel	156,052	-	-	-	156,052	-	-	-	156,052
Total Expenses	\$ 34,168,685	\$ 602,335	\$ 2,847,429	\$ 1,263,658	\$ 38,882,107	\$ 4,528,755	\$ 1,794,844	\$ 6,323,599	\$ 45,205,706

National Math & Science Initiative, Inc.
Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program Services</u>				<u>Supporting Services</u>			<u>Total</u>
	<u>College Readiness Program</u>	<u>Laying the Foundation</u>	<u>UTeach</u>	<u>Total Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries and Benefits	\$ 5,532,352	\$ 288,471	\$ 528,497	\$ 6,349,320	\$ 3,290,228	\$ 1,093,815	\$ 4,384,043	\$ 10,733,363
Professional Services	2,213,439	15,646	648,452	2,877,537	600,026	606,345	1,206,371	4,083,908
Occupancy and Office Expense	1,072,255	65,066	92,318	1,229,639	607,665	103,513	711,178	1,940,817
Depreciation	44,365	2,593	5,197	52,155	26,612	7,411	34,023	86,178
Conference and Meetings	320,572	4,356	61,672	386,600	372,698	163,860	536,558	923,158
Uteach Institute Services	143,176	-	933,333	1,076,509	-	-	-	1,076,509
Payments to Grantees	1,056,081	-	3,357,334	4,413,415	-	-	-	4,413,415
Educator and Student Payments	5,637,916	-	-	5,637,916	-	-	-	5,637,916
Exam Fees and Supplies	1,078,276	-	350	1,078,626	-	-	-	1,078,626
Teacher and Student Training	15,665,628	171,321	80,661	15,917,610	-	-	-	15,917,610
Program Travel	214,133	-	1,669	215,802	-	-	-	215,802
Total Expenses	<u>\$ 32,978,193</u>	<u>\$ 547,453</u>	<u>\$ 5,709,483</u>	<u>\$ 39,235,129</u>	<u>\$ 4,897,229</u>	<u>\$ 1,974,944</u>	<u>\$ 6,872,173</u>	<u>\$ 46,107,302</u>

National Math & Science Initiative, Inc.
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ (4,289,889)	\$ (10,573,927)
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operations		
Depreciation Expense	78,518	86,178
Realized/Unrealized (Gain) Loss on Investment Securities	(288,370)	(292,726)
Decrease (Increase) in Prepaid Expenses and Other	152,712	(284,588)
Decrease (Increase) in Accounts and Grants Receivable	(1,111,617)	3,181,521
Increase (Decrease) in Accounts Payable and Accrued Expenses	(224,212)	(881,511)
Increase (Decrease) in Deferred Revenue and Rent	(1,016,835)	723,001
	<u>(6,699,693)</u>	<u>(8,042,052)</u>
Net Cash Used In Operations		
Cash Flows from Investing Activities		
Purchase of Investments	(23,422,199)	(30,812,550)
Proceeds From Sale of Investments	28,432,087	33,451,106
	<u>5,009,888</u>	<u>2,638,556</u>
Net Cash Flows Provided By Investing Activities		
Net Decrease in Cash and Cash Equivalents	(1,689,805)	(5,403,496)
Cash and Cash Equivalents, Beginning of Year	<u>13,615,772</u>	<u>19,019,268</u>
Cash and Cash Equivalents, End of Year	<u>\$ 11,925,967</u>	<u>\$ 13,615,772</u>

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

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 four 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. The AlignEd Program supports districts allowing them to implement a comprehensive STEM pathway in grades K-12, which includes curriculum integration and professional development.

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 2019 and 2018, 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, 2019, 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 Net Investment Return

NMSI invests in treasury securities and certificates of deposits (with original maturities greater than three months). These investments are valued at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value, less external investment expenses.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Accounts Receivable

Accounts receivables are stated at the amount of consideration from customers of which NMSI has an unconditional right to receive. Accounts receivable 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 \$4,762 and \$4,000 as of December 31, 2019 and 2018, respectively.

Grants Receivable

Grants receivable consist of amounts due from government agencies and represent amounts due to NMSI in accordance with cost-reimbursement contracts. Grants receivable are stated at the amount that management expects to collect. Grants receivable are considered fully collectible by management.

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 generally accepted accounting principles.

Net Assets

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions that are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Contributions

Contributions are provided to NMSI either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on NMSI overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value estimated future cash flows technique

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period the gift is received are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received is earned are recorded as revenue with donor restrictions and then released from restriction.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Conditional Gifts

NMSI has received conditional promises to give at December 31, 2019 that are not recognized in the financial statements of \$2,617,705 due to time restrictions and performance of deliverables in regard to the College Readiness Program.

Intention to Give

NMSI has been notified of an intention to give from a corporate donor that is not yet recognized in the financial statements. The intention to give is estimated to be \$27,200,000 at December 31, 2019.

Government Grants

Support funded by grants is recognized as NMSI meets the conditions prescribed by the grant agreement, 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. No adjustments have been required during 2019 or 2018.

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 2016, 2017 and 2018.

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.

Change in Accounting Principles

On January 1, 2019, NMSI adopted the Financial Accounting Standards Board Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU 2014-09) using a modified retrospective method of adoption to all contracts with customers at January 1, 2019.

The core guidance in ASU 2014-09 is to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which NMSI expects to be entitled in exchange for those goods or services.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

The amount to which NMSI expects to be entitled is calculated as the transaction price and recorded as revenue in exchange for providing goods or services.

Adoption of ASU 2014-09 resulted in no changes in presentation of financial statements but added new disclosures in the notes to the financial statements. There were no changes to what would have been recorded revenue during 2018.

On January 1, 2019, NMSI adopted the Financial Accounting Standards Board Accounting Standards Update 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, (ASU 2018-08) using a modified prospective basis at January 1, 2019. The amendments of the standard were applied to the portion of agreements that were not completed as of January 1, 2019 or entered into after January 1, 2019.

ASU 2018-08 clarifies the guidance on determining whether a transaction with a resource provided is a contribution or an exchange transaction. Upon adoption of the standard, NMSI determined that grant support received through periodic claims filed with the respective funding sources is conditional upon incurring qualifying expenses and includes a right of return or release, and therefore should not be recorded until this barrier is overcome. The standard amends the simultaneous release accounting policy to allow a not-for-profit to elect a separate policy for donor-restricted contributions that were initially conditional contributions without also having to elect the policy for other donor-restricted contributions. This election is disclosed in the *Note 1* "Contributions" section.

Adoption of ASU 2018-08 had no impact on the previously reported 2018 financial statement amounts.

Note 2: Grant Reimbursements Receivable and Future Commitments

NMSI receives its government 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 unconditional portions of the grants not yet received as of December 31, 2019 and 2018, have been recorded as grants receivable. Following are the grant commitments that extend beyond December 31, 2019 and 2018:

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned Through 2019</u>	<u>Funding Available at December 31, 2019</u>
Department of Education				
Supporting Effective Educator Development Program	October 1, 2017 - September 30, 2020	\$ 6,127,976	1,959,544	\$ 4,168,432
Partnerships to Advance STEM Education: Building College Readiness for All Students	January 1, 2016 - December 31, 2020	19,943,180	15,166,280	4,776,900
Rural ACCESS: AP, College, and Career Excellence in STEM and Computer Science	October 1, 2018 - September 30, 2023	3,982,082	716,048	3,266,034
Lone Star AP Computer Science	October 1, 2019 - September 30, 2024	3,999,921	10,280	3,989,641
Department of Defense				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	September 30, 2015 - February 26, 2023	40,822,289	24,328,746	16,493,543
Invitational Grants for Military-Connected Schools	May 20, 2011 - December 31, 2020	25,381,068	25,380,972	96
DOD, NDEP, DOTC-STEM Education Outreach	March 1, 2019 - February 29, 2024	29,999,390	1,254,004	28,745,386
		<u>\$ 130,255,906</u>	<u>\$ 68,815,874</u>	<u>\$ 61,440,032</u>

<u>Grant</u>	<u>Term</u>	<u>Grant Amount</u>	<u>Earned Through 2018</u>	<u>Funding Available at December 31, 2018</u>
Department of Education				
Supporting Effective Educator Development Program	October 1, 2017 - September 30, 2020	\$ 6,127,976	1,042,919	\$ 5,085,057
Partnerships to Advance STEM Education: Building College Readiness for All Students	January 1, 2016 - December 31, 2020	19,943,180	10,477,583	9,465,597
Rural ACCESS: AP, College, and Career Excellence in STEM and Computer Science	October 1, 2018 - September 30, 2023	3,982,082	66,578	3,915,504
Department of Defense				
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	September 30, 2015 - February 26, 2023	40,822,289	13,568,800	27,253,489
Invitational Grants for Military-Connected Schools	May 20, 2011 - December 31, 2020	25,381,068	24,291,929	1,089,139
		<u>\$ 96,256,595</u>	<u>\$ 49,447,809</u>	<u>\$ 46,808,786</u>

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 3: Investments and Net Investment Return

Investments at December 31 consisted of the following:

	<u>2019</u>	<u>2018</u>
U.S. Treasury Securities	\$ 9,733,402	\$ 15,805,925
Negotiable Certificates of Deposit	2,249,800	898,659
	<u>\$ 11,983,202</u>	<u>\$ 16,704,584</u>

Total net investment return is comprised of the following:

	<u>2019</u>	<u>2018</u>
Interest Income	\$ 154,992	\$ 130,012
Net Realized and Unrealized Gains on Investments Reported at Fair Value	288,370	292,726
	<u>\$ 443,362</u>	<u>\$ 422,738</u>

Note 4: Property and Equipment

Property and equipment at December 31, consists of:

	<u>2019</u>	<u>2018</u>	<u>Estimated Useful Lives</u>
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
Total	678,469	678,469	
Less accumulated depreciation and amortization	(461,014)	(382,496)	
Property and equipment, net	<u>\$ 217,455</u>	<u>\$ 295,973</u>	

Depreciation and amortization expense for the years ended December 31, 2019 and 2018, was \$78,518 and \$86,178, respectively.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Note 5: Net Assets With Donor Restriction

Net Assets With Donor Restrictions

Net assets with donor restrictions totaled \$14,665,138 and \$19,314,096 for December 31, 2019 and 2018, respectively, and 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 years ended:

	Net Assets With Donor Restrictions	Amounts Released From Restriction
December 31, 2019		
College Readiness Program	\$ 10,109,115	\$ 10,016,842
Laying the Foundation	187,440	12,560
UTeach Expansion	2,734,886	3,229,477
AlignEd	1,544,322	536,202
Other	89,375	203,119
Total	\$ 14,665,138	\$ 13,998,200
	Net Assets With Donor Restrictions	Amounts Released From Restriction
December 31, 2018		
College Readiness Program	\$ 13,742,239	\$ 12,475,477
Laying the Foundation	115,000	50,000
Uteach Expansion	5,289,363	5,837,756
Other	167,494	612,157
Total	\$ 19,314,096	\$ 18,975,390

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 \$572,861 and \$857,043 as of December 31, 2019 and 2018, respectively. During 2019 and 2018, \$3,084,025 and \$4,413,415, respectively, was disbursed for grants that became unconditional due to benchmarks being met.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

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 2017 (effective as of November 1, 2017), 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 Dallas for 2019 and 2018, was \$548,257 and \$490,986, 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 non-cancellable leases having terms in excess of a year as of the year ended December 31, 2019:

	<u>Office Space</u>
2020	\$ 454,173
2021	464,587
2022	474,190
2023	402,140
Total minimum lease payments	<u>\$ 1,795,090</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 \$437,321 and \$399,020 for 2019 and 2018, respectively.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

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, 2019 and 2018.

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2019				
Investments				
U.S. Treasury Securities	\$ 9,733,402	\$ 9,733,402	\$ -	\$ -
Certificates of Deposits	2,249,800	-	2,249,800	-
Total Investments	<u>\$ 11,983,202</u>	<u>\$ 9,733,402</u>	<u>\$ 2,249,800</u>	<u>\$ -</u>
December 31, 2018				
Investments				
U.S. Treasury Securities	\$ 15,805,925	\$ 15,805,925	\$ -	\$ -
Certificates of Deposits	898,659	-	898,659	-
Total Investments	<u>\$ 16,704,584</u>	<u>\$ 15,805,925</u>	<u>\$ 898,659</u>	<u>\$ -</u>

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

Following is a description of the valuation methodologies and inputs used for assets 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 pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019.

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, 2019 or 2018.

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, 2019, approximately 53% of contributions were received from governmental agencies and approximately 11% of contributions were received from one donor. In addition, 98% of grant receivables at December 31, 2019, were from governmental agencies.

During the year ended December 31, 2018, approximately 49% of contributions were received from governmental agencies and approximately 13% of contributions were received from one donor. In addition, 93% of grant receivables at December 31, 2018, were from governmental agencies.

Investments

NMSI invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying statements of financial position.

National Math & Science Initiative, Inc.
Notes to Financial Statements
December 31, 2019 and 2018

Note 11: Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31, 2019 and 2018, comprise the following:

	<u>2019</u>	<u>2018</u>
Financial Assets, at Year End	\$ 31,463,855	\$ 36,763,535
Donor Restricted Funds	<u>(14,665,138)</u>	<u>(19,314,096)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 16,798,717</u>	<u>\$ 17,449,439</u>

As part of NMSI's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other general obligations come due.

Note 12: Revenue from Contracts with Customers

Fee for Service Revenue

Fee for service revenue is generated from contracts with school districts for the purchase of specified services. Specified services may include the purchase of training seats, program management, private trainings, and student study sessions. Performance obligations are determined based on the nature of the services provided by NMSI in accordance with the contract. Revenue for performance obligations satisfied over time is recognized ratably over the period based on the time elapsed. NMSI believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the outputs needed to satisfy the obligation. The exchange portion of fees for service revenue was \$10,368,940 for the year ended December 31, 2019.

Transaction Price and Recognition

NMSI determines the transaction price based on standard charges for services provided. Payment terms are net 30 days. There are no explicit or implicit price concessions and the contracts do not contain a significant financing component or variable consideration.

NMSI has not incurred material refunds in the past, and accordingly, has not provided for a refund liability at December 31, 2019.

National Math & Science Initiative, Inc.

Notes to Financial Statements

December 31, 2019 and 2018

NMSI has determined that the nature, amount, timing and uncertainty of revenue and cash flows vary based on each school district and when their funding is available and approved by their respective boards.

For the year ended December 31, 2019, NMSI recognized no revenue from services that transfer to the customer at a point in time.

Note 13: Subsequent Events

As a result of the occurrence and spread of the COVID-19, global economic uncertainties have arisen which may negatively affect the financial position and cash flows of NMSI. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time. NMSI expects to access its reserves in order to support ongoing operations.

Subsequent events have been evaluated through September 23, 2020, which is the date the financial statements were available to be issued.

Note 14: Future Change in Accounting Principle

Accounting for Leases

The FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the balance sheet as both a right-of-use asset and a liability. The standard has two types of leases for income statement recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021. The Organization is evaluating the impact the standard will have on the financial statements; however, the standard is expected to have a material impact on the financial statements due to the recognition of additional assets and liabilities for operating leases.

Supplementary Information

National Math & Science Initiative, Inc.
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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	\$ -	\$ 975,779
<i>Education Innovation and Research</i>				
Partnerships to Advance STEM Education: Building College Readiness for All Students	84.411A	U411A150009	-	4,748,641
Rural ACCESS: AP, College, and Career Excellence in STEM and Computer Science	84.411C	U411C180020	-	654,756
	84.411C	U411C190037	-	10,280
<i>Total Education Innovation and Research</i>			-	5,413,677
Total Department of Education			-	6,389,456
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, H1254-18-1-0001	606,839	10,517,326
Invitational Grants for Military-Connected Schools	12.557	H1254-11-1-0001	413,963	1,106,374
Passed through RTI International: DOD, NDEP, DOTC-STEM Education Outreach Implementation	12.560	W911NF1920007	-	1,288,842
Total Department of Defense			1,020,802	12,912,542
Total Federal Awards Expended			\$ 1,020,802	\$ 19,301,998

National Math & Science Initiative, Inc.
Notes to the Schedule of Expenditures of Federal Awards
Year Ended December 31, 2019

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, 2019. 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 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

Board of Directors
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, 2019, 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 September 23, 2020, which contained an *Emphasis of Matters* paragraph regarding a change in accounting principles.

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
September 23, 2020

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

Independent Auditor's Report

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

Report on Compliance for Each 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 each of NMSI's major federal programs for the year ended December 31, 2019. NMSI's major federal programs are 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 each of NMSI's major federal programs 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 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 each major federal program. However, our audit does not provide a legal determination of NMSI's compliance.

Opinion on Each 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 each of its major federal programs for the year ended December 31, 2019.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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
September 23, 2020

National Math & Science Initiative, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2019

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 major federal awards programs 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 major federal awards programs 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, 2019

7. NMSI's major programs were:

Name of Program	CFDA Number
Competitive Grants: Promoting K-12 Student Achievement at Military-Connected Schools	12.556
Invitational Grants for Military-Connected Schools	12.557
DOD, NDEP, DOTC-STEM Education Outreach Implementation	12.560

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, 2019

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, 2019

Reference Number	Summary of Finding	Status
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No matters are reportable.