

THE ART OF PROBLEM SOLVING INITIATIVE, INC.

FINANCIAL STATEMENTS

Years Ended December 31, 2017 and 2016

**THE ART OF PROBLEM SOLVING INITIATIVE, INC.
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Art of Problem Solving Initiative, Inc.
New York, NY

We have audited the accompanying financial statements of The Art of Problem Solving Initiative, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 The Art of Problem Solving Initiative, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Johnson O'Connor Feron & Carucci LLP

Wakefield, Massachusetts
October 22, 2018

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2017	2016
ASSETS		
CURRENT ASSETS		
Cash	\$ 2,776,456	\$ 788,477
Accounts receivable	-	2,748
Pledges receivable	686,000	676,639
Prepaid expenses	6,300	12,831
Security deposits	1,625	3,200
Total current assets	3,470,381	1,483,895
PROPERTY AND EQUIPMENT, NET	5,985	-
	\$ 3,476,366	\$ 1,483,895
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 11,937	\$ 33,245
Accrued expenses	31,880	2,442
Total current liabilities	43,817	35,687
NET ASSETS		
Unrestricted	1,781,736	776,531
Temporarily restricted	1,650,813	671,677
Total net assets	3,432,549	1,448,208
	\$ 3,476,366	\$ 1,483,895

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENT OF ACTIVITIES

	Year Ended December 31, 2017		
	Total	Unrestricted	Temporarily Restricted
REVENUES			
Contributions and grants	\$ 3,365,502	\$ 1,141,914	\$ 2,223,588
In-kind contributions	133,994	91,679	42,315
Special events income	6,180	2,380	3,800
Miscellaneous income	2,298	2,298	-
Net assets released from restriction	-	1,290,567	(1,290,567)
Total revenues	3,507,974	2,528,838	979,136
EXPENSES			
<u>Program services -</u>			
Educational and program services	1,300,937	1,300,937	-
<u>Supporting services -</u>			
Management and general	155,644	155,644	-
Fundraising	67,052	67,052	-
Total supporting services	222,696	222,696	-
Total expenses	1,523,633	1,523,633	-
Change in net assets	1,984,341	1,005,205	979,136
NET ASSETS - BEGINNING OF YEAR	1,448,208	776,531	671,677
NET ASSETS - END OF YEAR	\$ 3,432,549	\$ 1,781,736	\$ 1,650,813

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENT OF ACTIVITIES

	Year Ended December 31, 2016		
	Total	Unrestricted	Temporarily Restricted
REVENUES			
Contributions and grants	\$ 1,787,961	\$ 468,744	\$ 1,319,217
In-kind contributions	63,495	36,750	26,745
Special events income	2,000	1,200	800
Miscellaneous income	846	846	-
Net assets released from restriction	-	1,019,780	(1,019,780)
Total revenues	<u>1,854,302</u>	<u>1,527,320</u>	<u>326,982</u>
EXPENSES			
<u>Program services -</u>			
Educational and program services	<u>1,189,222</u>	<u>1,189,222</u>	<u>-</u>
<u>Supporting services -</u>			
Management and general	120,871	120,871	-
Fundraising	52,778	52,778	-
Total supporting services	<u>173,649</u>	<u>173,649</u>	<u>-</u>
Total expenses	<u>1,362,871</u>	<u>1,362,871</u>	<u>-</u>
Change in net assets	491,431	164,449	326,982
NET ASSETS - BEGINNING OF YEAR	<u>956,777</u>	<u>612,082</u>	<u>344,695</u>
NET ASSETS - END OF YEAR	<u><u>\$ 1,448,208</u></u>	<u><u>\$ 776,531</u></u>	<u><u>\$ 671,677</u></u>

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Total Expenses	Educational and Program Services				Supporting Services		
		Mathematics Foundation of America	Bridge to Enter Advanced Mathematics	USA Mathematical Talent Search	Total Program Services	Management and General	Fundraising	Total Supporting Services
Payroll and payroll taxes	\$ 837,521	\$ -	\$ 771,345	\$ 940	\$ 772,285	\$ 33,693	\$ 31,543	\$ 65,236
Rent	248,389	-	153,368	3,343	156,711	91,678	-	91,678
Food	149,688	-	117,975	2,784	120,759	814	28,115	28,929
Travel	76,878	-	74,176	-	74,176	1,946	756	2,702
Outside contract service	47,161	-	9,775	37,331	47,106	-	55	55
Supplies	31,528	-	30,094	765	30,859	404	265	669
Field trips	24,963	-	24,963	-	24,963	-	-	-
Insurance	23,985	-	21,858	21	21,879	968	1,138	2,106
Professional fees	18,068	-	-	-	-	18,068	-	18,068
Employee benefits	17,043	-	15,034	-	15,034	932	1,077	2,009
Licenses, permits, and fees	14,481	-	12,506	950	13,456	1,025	-	1,025
Printing	12,967	-	9,886	-	9,886	-	3,081	3,081
Postage and delivery	7,751	-	4,560	1,660	6,220	961	570	1,531
Telephone	3,947	-	3,210	-	3,210	737	-	737
Bank charges	2,986	-	-	-	-	2,986	-	2,986
Advertising	2,218	-	1,921	-	1,921	-	297	297
Other	1,709	-	1,102	-	1,102	557	50	607
Information technology	1,551	-	461	110	571	875	105	980
Depreciation	799	-	799	-	799	-	-	-
Awards and grants	-	-	-	-	-	-	-	-
Staff development	-	-	-	-	-	-	-	-
Bad debt	-	-	-	-	-	-	-	-
Use tax	-	-	-	-	-	-	-	-
Total expenses	\$ 1,523,633	\$ -	\$ 1,253,033	\$ 47,904	\$ 1,300,937	\$ 155,644	\$ 67,052	\$ 222,696

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2016

	Total Expenses	Educational and Program Services				Supporting Services		
		Mathematics Foundation of America	Bridge to Enter Advanced Mathematics	USA Mathematical Talent Search	Total Program Services	Management and General	Fundraising	Total Supporting Services
Payroll and payroll taxes	\$ 581,420	\$ -	\$ 508,677	\$ 2,006	\$ 510,683	\$ 31,943	\$ 38,794	\$ 70,737
Rent	176,462	-	125,992	-	125,992	50,470	-	50,470
Food	115,127	-	104,032	733	104,765	288	10,074	10,362
Travel	57,561	-	55,785	1,632	57,417	-	144	144
Outside contract service	47,356	-	19,745	27,281	47,026	330	-	330
Supplies	31,673	-	26,308	5,242	31,550	23	100	123
Field trips	23,646	-	23,646	-	23,646	-	-	-
Insurance	46,920	-	25,171	54	25,225	19,729	1,966	21,695
Professional fees	14,601	-	-	-	-	14,601	-	14,601
Employee benefits	-	-	-	-	-	-	-	-
Licenses, permits, and fees	16,529	-	15,954	-	15,954	575	-	575
Printing	15,506	-	5,197	8,769	13,966	-	1,540	1,540
Postage and delivery	10,307	-	7,850	1,765	9,615	582	110	692
Telephone	532	-	-	-	-	532	-	532
Bank charges	1,458	12	55	-	67	1,391	-	1,391
Advertising	7,159	-	3,534	3,625	7,159	-	-	-
Other	2,937	-	2,937	-	2,937	-	-	-
Information technology	581	-	65	119	184	397	-	397
Depreciation	-	-	-	-	-	-	-	-
Awards and grants	211,488	211,488	-	-	211,488	-	-	-
Staff development	1,270	-	1,220	-	1,220	-	50	50
Bad debt	328	-	328	-	328	-	-	-
Use tax	10	-	-	-	-	10	-	10
Total expenses	\$ 1,362,871	\$ 211,500	\$ 926,496	\$ 51,226	\$ 1,189,222	\$ 120,871	\$ 52,778	\$ 173,649

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,984,341	\$ 491,431
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	799	-
(Increase) decrease in operating assets:		
Accounts receivable	2,748	(1,787)
Pledges receivable	(9,361)	(405,572)
Prepaid expenses	6,531	(11,593)
Security deposits	1,575	-
Increase (decrease) in operating liabilities:		
Accounts payable	(21,308)	(18,853)
Accrued expenses	29,438	(1,411)
Net cash provided by operating activities	<u>1,994,763</u>	<u>52,215</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	<u>(6,784)</u>	<u>-</u>
Net cash used by investing activities	<u>(6,784)</u>	<u>-</u>
Net increase in cash	1,987,979	52,215
CASH - BEGINNING OF YEAR	<u>788,477</u>	<u>736,262</u>
CASH - END OF YEAR	<u><u>\$ 2,776,456</u></u>	<u><u>\$ 788,477</u></u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION

Cash paid during the year for:		
Taxes	\$ -	\$ 10

See notes to financial statements.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

1. STATEMENT OF PURPOSE

The Art of Problem Solving Initiative, Inc. (the Organization), formerly known as “The Art of Problem Solving Foundation,” is a nonprofit organization with a mission dedicated to promoting and providing opportunities to explore and experience mathematical problem solving among middle and high school students in the United States. The Organization was formed in 2004. The Organization focuses its efforts on two main programs: Bridge to Enter Advanced Mathematics (“BEAM”, formerly Summer Program in Mathematical Problem Solving), a summer program for underserved New York City middle school students with talent in mathematics; and USA Mathematical Talent Search (“USAMTS”), a math contest for U.S. Citizens and Residents that emphasizes research and in-depth thinking.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation –

The financial statements of the Organization have been prepared on the accrual basis of accounting. Accordingly, assets are recorded when the Organization obtains the rights of ownership or is entitled to claim receipt, and liabilities are recorded when the obligation is incurred.

The Organization reports information regarding its financial position and activities according to the following three classes of net assets:

- i. Unrestricted Net Assets - use of resources is not limited or restricted by donors.
- ii. Temporarily Restricted Net Assets - use of resources is limited by donors for a specified purpose and/or time period.
- iii. Permanently Restricted Net Assets - resources must be maintained in accordance with permanent restrictions imposed by donors.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. The Organization records all pledges as temporarily restricted until payment is received. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If restricted contribution criteria are met and the funds are released in the same year, the contribution is considered unrestricted revenue.

The Organization reports gifts of land, buildings, 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, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates –

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions, Grants, and Revenue Recognition –

Contributions are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expiration of temporary restrictions on net assets by fulfillment of the donor stipulated purpose, or by passage of the stipulated time period, are reported as reclassifications between applicable classes of net assets.

Grant revenue on cost-reimbursement grants or contracts is recognized when the Organization requests reimbursement from granting agencies after the program expenditures have been incurred. As such, the Organization recognizes revenue and records a receivable for the reimbursement amount from the granting agency.

Date of Management's Review –

Subsequent events have been evaluated by management through October 22, 2018, the date the financial statements were available to be issued.

Cash Equivalents –

The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Accounts Receivable –

Accounts receivable are non-interest bearing and consist of amounts invoiced by the Organization to agencies, students, and other sources of revenue that have not been received as of December 31, 2017 and 2016. The Organization uses the allowance method to account for uncollectible receivables. The allowance is based on management's estimate of possible bad debts based upon historical experience and management's evaluation of outstanding accounts receivable at the end of the year. Management believes that all receivables are fully collectible; therefore, no allowance for uncollectible amounts has been recorded.

Pledges Receivable –

Pledges receivable consist of unconditional promises to give to be collected over a donor specified term. The Organization uses the allowance method to account for uncollectible pledges. The allowance is based on management's estimate of possible bad debts. Management believes that all pledges receivable are fully collectible; therefore, no allowance for uncollectible pledges has been recorded.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable (Continued) –

The Organization discounts pledges that are not due within one year to their present value at a risk-free rate of return based on the yield of a U.S. Treasury Security with a maturity date similar to the expected collection period, when material. These discounts are ratably amortized over the life of the pledge and are recorded as contributions in the statement of activities.

Property and Equipment –

Property and equipment are recorded at cost if purchased or fair value if contributed. The Organization has a policy of capitalizing assets with a cost basis of \$1,000 or more. The Organization provides for depreciation of property and equipment using the straight-line method over the estimated useful life of the related assets, which is three years.

Functional Expenses –

The Organization allocates expenses on a functional basis among its programs and supporting services. Supporting services are those related to operating and managing the Organization and its programs on a day-to-day basis and are composed of the following:

Management and general – includes all activities related to the Organization’s internal management and accounting for program services.

Fundraising – includes activities related to maintaining contributor information, writing grant proposals, distribution of materials and other similar projects related to the procurement of funds for the Organization’s programs.

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. Other expenses that are common to several functions are allocated in accordance with the Organization’s indirect costs allocation plan. Allocations of functional expenses are based on management’s discretion and estimates. These variables may change from year to year. As a result, there may be fluctuations in the comparative presentation of data from year to year.

Income Taxes –

The Organization is organized and operated exclusively for charitable and educational purposes. Income related to these purposes is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. Unrelated business income would be taxable according to applicable Internal Revenue Code sections.

The Organization regularly reviews and evaluates its tax positions taken in its filed returns and recognizes the benefit from a tax position only if it is more likely than not that the position would be sustained upon audit based solely on the technical merits of the tax position. The Organization accrues interest and penalties on uncertain tax positions as a component of the provision for income taxes. Management evaluated the Organization’s tax positions and concluded that the Organization has no material uncertainties in income taxes.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued) –

The Organization files federal, California and New York tax returns. The statute of limitations for these jurisdictions is generally three years. The Organization had no returns under examination as of December 31, 2017.

Advertising Expense –

The Organization's policy is to expense advertising costs as incurred. Advertising expenses totaled \$2,218 and \$7,159 for the years ended December 31, 2017 and 2016, respectively.

Non-Cash Donations –

The Organization's non-cash donations consist primarily of donated books and rental space. Donations of materials or rent are recorded at fair market value based on the price of comparable items at the date of donation. The Organization received non-cash donations totaling \$133,994 and \$63,495 for the years ended December 31, 2017 and 2016, respectively.

When significant, donations of professional services are recorded at their estimated fair market value based on the current fee schedule of the donor at the date of receipt and are reflected as both a contribution and expense in the statement of activities. There were no donations of professional services for the years ended December 31, 2017 and 2016, respectively.

3. CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash. The Organization maintains its cash in several bank accounts. The bank balances at times may exceed the federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash.

4. PLEDGES RECEIVABLE

As of December 31, 2017 and 2016, the pledges receivable balance of \$686,000 and \$676,639, respectively, were due within one year.

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

5. PROPERTY AND EQUIPMENT

Property and equipment is summarized as follows:

	December 31,	
	2017	2016
Computers and software	\$ 6,784	\$ -
Less: Accumulated depreciation	799	-
	\$ 5,985	\$ -

6. NET ASSETS

Temporarily restricted net assets consisted of assets restricted for the Bridge to Enter Advanced Mathematics, USA Mathematical Talent Search initiatives, and Math Circles that are located at colleges and universities across the United States. Temporarily restricted net assets were available for the following purposes:

	December 31,	
	2017	2016
Bridge to Enter Advanced Mathematics	\$ 1,650,195	\$ 670,264
USA Mathematical Talent Search	618	472
Math Circles	-	941
	\$ 1,650,813	\$ 671,677

There were no permanently restricted net assets as of December 31, 2017 and 2016.

Certain temporarily restricted assets were released from donor restrictions during the years ended December 31, 2017 and 2016 by incurring costs satisfying the restricted purposes or by the occurrence of other events or the passage of time specified by the donors and were reclassified as unrestricted net assets as follows:

	December 31,	
	2017	2016
Bridge to Enter Advanced Mathematics	\$ 1,241,722	\$ 760,934
USA Mathematical Talent Search	47,904	47,347
Mathematics Foundation of America	-	211,499
Math Circles	941	-
	\$ 1,290,567	\$ 1,019,780

THE ART OF PROBLEM SOLVING INITIATIVE, INC.
NOTES TO FINANCIAL STATEMENTS

7. MAJOR CONTRIBUTORS

During the year ended December 31, 2017, the Organization received contributions and grants totaling \$1,350,000 from two funders. These amounts represent approximately 39% of total contributions and grants received during the year. As of December 31, 2017, \$500,000 of these contributions and grants had not been received and are recorded as a pledge receivable in the statement of financial position.

During the year ended December 31, 2016, the Organization received contributions and grants totaling \$750,000 from three funders. These amounts represent approximately 41% of total contributions and grants received during the year. As of December 31, 2016, \$550,000 of these contributions and grants received and were recorded as a pledge receivable in the statement of financial position.

8. LEASES

The Organization rents facilities and office space to conduct program activities and for general administration purposes under short-term leases. In addition, certain programs are conducted in facilities where space is donated to the Organization. Rent expense totaled \$248,389 and \$176,462 for the years ended December 31, 2017 and 2016, respectively.

9. RELATED PARTY TRANSACTIONS

The Art of Problem Solving, Inc. (AOPS, Inc.) is a for profit affiliate of the Organization. AOPS, Inc. at times performs activities on the Organization's behalf. Expenses associated with these activities are reimbursed by the Organization. For the years ended December 31, 2017 and 2016, the Organization reimbursed AOPS, Inc. \$3,913 and \$3,463, respectively. As of December 31, 2017 and 2016, there were no amounts due to AOPS, Inc.

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