

**James B. Hunt, Jr. Institute for
Educational Leadership and Policy
Foundation, Inc.**

Financial Statements

As of and for the Years Ended
June 30, 2014 and 2013

(with Independent Auditors' Report thereon)

***James B. Hunt, Jr. Institute for Educational Leadership and
Policy Foundation, Inc.***

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Independent Auditors' Report

To the Board of Directors
James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc.
Durham, North Carolina

We have audited the accompanying financial statements of James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc., which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of operations, changes in net assets, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc. as of June 30, 2014 and 2013 and the results of its operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Raleigh, North Carolina
November 25, 2014

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
ASSETS		
Cash and cash equivalents	\$ 448,603	\$ 2,468,634
Grants receivable	1,278,797	1,568,260
Other receivables	88,372	-
Certificates of deposit	1,739,936	994,563
Short-term investments	2,348,297	-
	<u>5,904,005</u>	<u>5,031,457</u>
TOTAL ASSETS	\$ 5,904,005	\$ 5,031,457
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 82,177	\$ 73,609
NET ASSETS		
Unrestricted	2,960,235	2,623,601
Temporarily restricted	2,861,593	2,334,247
	<u>5,821,828</u>	<u>4,957,848</u>
TOTAL NET ASSETS	5,821,828	4,957,848
TOTAL LIABILITIES AND NET ASSETS	\$ 5,904,005	\$ 5,031,457

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
STATEMENT OF OPERATIONS
For the Year Ended June 30, 2014**

	2014		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Grants	\$ 300,000	\$ 2,924,782	\$ 3,224,782
Contributions	201,955	-	201,955
Interest and dividends	4,181	-	4,181
Miscellaneous	2,000	11,500	13,500
Total revenues	508,136	2,936,282	3,444,418
Net assets released from restrictions	2,408,936	(2,408,936)	-
TOTAL REVENUES AND RESTRICTION RELEASES	2,917,072	527,346	3,444,418
EXPENSES			
Program activities			
Programmatic consultants	1,131,668	-	1,131,668
Payments to UNC	649,374	-	649,374
Payments to non-profits	270,983	-	270,983
Travel	168,207	-	168,207
Convening	148,417	-	148,417
Materials for convening	46,102	-	46,102
Communications	20,521	-	20,521
Meetings	19,580	-	19,580
Research and subscription materials	6,815	-	6,815
Miscellaneous	283	-	283
Total program activities	2,461,950	-	2,461,950
General and administrative			
Administrative consultants	28,276	-	28,276
Meetings	26,885	-	26,885
Human resources	14,590	-	14,590
Moving expenses	11,816	-	11,816
Miscellaneous	6,428	-	6,428
Phone	6,223	-	6,223
Office supplies	5,576	-	5,576
Repairs and maintenance	4,481	-	4,481
Professional development	3,460	-	3,460
Copying and printing	2,822	-	2,822
Postage and shipping	2,819	-	2,819
Materials	1,854	-	1,854
Membership	1,453	-	1,453
Equipment	1,385	-	1,385
Bank charge	420	-	420
Total general and administrative	118,488	-	118,488
TOTAL EXPENSES	2,580,438	-	2,580,438
EXCESS REVENUES OVER EXPENSES	\$ 336,634	\$ 527,346	\$ 863,980

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
STATEMENT OF OPERATIONS
For the Year Ended June 30, 2013**

	2013		
	Unrestricted	Temporarily Restricted	Total
REVENUES			
Grants	\$ 300,000	\$ 2,976,005	\$ 3,276,005
Miscellaneous	4,785	381	5,166
Interest and dividends	500	-	500
Total revenues	<u>305,285</u>	<u>2,976,386</u>	<u>3,281,671</u>
Net assets released from restrictions	<u>1,767,838</u>	<u>(1,767,838)</u>	<u>-</u>
TOTAL REVENUES AND RESTRICTION RELEASES	<u>2,073,123</u>	<u>1,208,548</u>	<u>3,281,671</u>
EXPENSES			
Program activities			
Programmatic consultants	978,824	-	978,824
Payments to UNC	353,155	-	353,155
Travel	305,366	-	305,366
Convening	244,566	-	244,566
Materials for convening	99,044	-	99,044
Meetings	29,982	-	29,982
Research and subscription materials	20,882	-	20,882
Miscellaneous	5,236	-	5,236
Total program activities	<u>2,037,055</u>	<u>-</u>	<u>2,037,055</u>
General and administrative			
Administrative consultants	34,787	-	34,787
Phone	8,645	-	8,645
Office supplies	5,183	-	5,183
Miscellaneous	3,837	-	3,837
Postage and shipping	2,485	-	2,485
Repairs and maintenance	2,057	-	2,057
Research	1,964	-	1,964
Membership	1,503	-	1,503
Equipment	1,321	-	1,321
Professional development	1,280	-	1,280
Materials	1,167	-	1,167
Bank charge	775	-	775
Copying and printing	632	-	632
Payroll processing	418	-	418
Total general and administrative	<u>66,054</u>	<u>-</u>	<u>66,054</u>
TOTAL EXPENSES	<u>2,103,109</u>	<u>-</u>	<u>2,103,109</u>
EXCESS REVENUES OVER (UNDER) EXPENSES	<u>\$ (29,986)</u>	<u>\$ 1,208,548</u>	<u>\$ 1,178,562</u>

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended June 30, 2014 and 2013**

	2013		
	Unrestricted	Temporarily Restricted	Total
NET ASSETS - beginning of year	\$ 2,653,587	\$ 1,125,699	\$ 3,779,286
Excess revenues over (under) expenses	(29,986)	1,208,548	1,178,562
NET ASSETS - end of year	<u>\$ 2,623,601</u>	<u>\$ 2,334,247</u>	<u>\$ 4,957,848</u>
	2014		
	Unrestricted	Temporarily Restricted	Total
NET ASSETS - beginning of year	\$ 2,623,601	\$ 2,334,247	\$ 4,957,848
Excess revenues over expenses	336,634	527,346	863,980
NET ASSETS - end of year	<u>\$ 2,960,235</u>	<u>\$ 2,861,593</u>	<u>\$ 5,821,828</u>

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess revenues over expenses	\$ 863,980	\$ 1,178,562
Adjustments to reconcile excess revenues over (under) expenses to net cash provided (used) by operating activities:		
Unrealized loss on investments	3,064	1,437
Change in:		
Grants receivable	289,463	(1,366,582)
Other receivables	(88,372)	-
Prepaid expenses	-	305,366
Accounts payable and accrued expenses	8,568	(212,198)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>1,076,703</u>	<u>(93,415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(1,743,000)	(996,000)
Maturity of certificates of deposit	994,563	1,494,456
Purchase of investments	(2,348,297)	-
Maturity of investments	-	1,199,952
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(3,096,734)</u>	<u>1,698,408</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,020,031)	1,604,993
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,468,634</u>	<u>863,641</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 448,603</u>	<u>\$ 2,468,634</u>

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013**

NOTE 1 NATURE OF ORGANIZATION

The James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc. (the “Foundation”) is a nonprofit organization that was established as a supporting organization of the University of North Carolina at Chapel Hill (“UNC”) to provide financial services to the James B. Hunt, Jr. Institute for Educational Leadership and Policy (the “Institute”). The Foundation works with states to develop a state-specific work plan to help states implement their own education reform platforms. The Foundation also holds seminars and symposia to exchange insights and provide information about transforming ideas into practice.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - For reporting purposes, the financial statements of the Foundation include all funds which are under the control of the Foundation’s Board of Directors.

Basis of Accounting - The Foundation’s financial statements are prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. This basis of accounting conforms to accounting principles generally accepted in the United States of America (“GAAP”).

Basis of Presentation – Accounting standards for financial statements of not-for-profit organizations require a statement of financial position, a statement of activities, and a statement of cash flows to be prepared. Also, the standards require classification of an organization’s net assets, revenues and expenses based on the existence or absence of donor-imposed restrictions (permanently restricted, temporarily restricted, or unrestricted).

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Certificate of Deposits – Certificates of deposit with maturities greater than three months when purchased are classified separately from cash and cash equivalents. Certificates of deposit are reported at fair value plus accrued interest. Unrealized gains and losses are included in interest income.

Investments - Investments are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in interest income.

Grant Revenues - Revenues from unrestricted grants are recognized upon the grantor’s award of the grant to the Foundation. Grants that are received with donor restrictions are recorded as temporarily restricted.

A significant amount of contributions were provided by two major grantors representing 70% and 61% of revenues in fiscal 2014 and 2013, respectively. Two grantors represented 92% and 83% of accounts receivable at June 30, 2014 and 2013, respectively.

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income Tax Status - The Foundation is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined that the Foundation is not a private foundation within the meaning of Section 509(a) of the Internal Revenue Code. During the years ended June 30, 2014 and 2013, the Foundation did not have any income subject to taxation as unrelated business income.

In accordance with guidance on accounting for uncertainty in income taxes, the Foundation has determined that all tax positions taken are highly certain. All tax years since 2011 are open to examination under the statute of limitations. The Foundation has determined that no unrecognized tax liability exists. Furthermore, the Foundation believes there is no material income tax affect on the financial statements for this period.

Contributions - In accordance with GAAP, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence or nature of any donor restrictions.

All donor-restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires, such as a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of operations as net assets released from restrictions. Contributions received with temporary restrictions that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on future amounts are computed using an appropriate interest rate commensurate with the risks involved for the number of years in the promise. Amortization of the discounts would be included in grant revenues. As of June 30, 2014, all grants receivable and unconditional promises to give are due in less than one year.

The Foundation's management believes that all receivables will be collected. Therefore, no allowance for uncollectible accounts is considered necessary as of June 30, 2014 or 2013.

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

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Net Assets - The statements of financial position reflect net assets as defined by the accrual basis of accounting. Net assets may be unrestricted, temporarily restricted, or permanently restricted. The Foundation maintains the following types:

Unrestricted - Assets that are not classified as either permanently or temporarily restricted.

Temporarily restricted - Assets subject to donor-imposed restrictions which either expire upon the passage of time or once specific actions have occurred. These assets are then released and reclassified to unrestricted support.

Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Subsequent Events – Management has evaluated subsequent events through November 25, 2014, the date the financial statements were available to be issued.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents are principally held in a bank deposit program or money market account at an international investment banking institution or federal credit union. Through the banking institutions, the Foundation also invests in certificates of deposit and U.S. Treasury Bills that are considered investments as of June 30, 2014 and 2013. Certain deposits are insured, up to certain limits, by the Federal Deposit Insurance Corporation and by the Securities Investor Protector Corporation. Financial instruments which potentially subject the Foundation to concentrations of credit risk consist of cash and cash equivalents. The Foundation's cash accounts occasionally exceed federally insured limits. The Foundation has not experienced any losses in such accounts.

NOTE 4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair value as defined under GAAP is an exit price, representing 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. GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- Level 1: Observable inputs such as quoted prices in active markets.
- Level 2: Inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: Unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013**

NOTE 4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES - continued

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

Prices for the treasury bills are readily available in the active markets in which those securities are traded and are categorized as Level 1. The Foundation does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 2 or Level 3, and there were no transfers in or out of Level 2 or Level 3 during 2013. There were no changes during 2014 or 2013 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

Fair values and unrealized losses at June 30 are summarized as follows:

	2014
Cost	\$ 2,348,682
Unrealized gains (losses)	(385)
Fair value	<u>\$ 2,348,297</u>

NOTE 5 RELATED PARTY TRANSACTIONS

University of North Carolina - In fiscal years 2014 and 2013, UNC received state appropriations earmarked to fund various programs. For the years ended June 30, 2014 and 2013, the Institute received approximately \$929,000 and \$959,000, respectively, to support operating costs for its programs. The Institute is required to submit an annual budget to UNC detailing the use of the funding. UNC maintains ownership of the funds, but releases the funds as directed by the Institute. The Institute must expend the entire amount received by June 30 as the unused balance is reallocated to other UNC programs. Continued funding by UNC in future periods cannot be assumed at current levels. The Foundation is a supporting organization for the Institute. Institute funding from UNC lowered the required monthly payment from the Foundation to support Institute programs. As of June 30, UNC paid the following expenses on behalf of the Institute, which are not included in the statements of operations:

	2014	2013
Salaries	\$ 589,955	\$ 595,082
Taxes and benefits	157,618	160,131
Operating expenses	174,288	157,845
Administrative expenses	5,848	13,953
Consultants and service providers	-	10,000
Other	6,436	4,558
Travel	-	284
Total expense	<u>\$ 934,145</u>	<u>\$ 941,853</u>

**JAMES B. HUNT, JR. INSTITUTE FOR EDUCATIONAL LEADERSHIP
AND POLICY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended June 30, 2014 and 2013**

NOTE 5 RELATED PARTY TRANSACTIONS (CONTINUED)

Other related party transactions – The Foundation received grant funds of approximately \$451,000 from multiple grantors in advance of the establishment of the Digital Learning Institute. Expenses of approximately \$180,000 were incurred by the Foundation on behalf of the Digital Learning Institute. Residual funds of approximately \$271,000 were disbursed to the Digital Learning Institute during fiscal 2014 once it was established. The Digital Learning Institute was founded and is chaired by the spouse of a board member of the Foundation.

During fiscal 2014, members of the Foundation's board of directors contributed \$11,500 to support the Hunt Leadership Fellows program.

NOTE 6 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the purposes stated in the grant agreement from the following grantors as of June 30:

	<u>2014</u>	<u>2013</u>
GE Foundation – Hunt Leadership Fellows	\$ 1,199,691	\$ 1,500,000
Bill & Melinda Gates Foundation – Common Core State Standards	1,178,591	-
Achieve, Inc. – Common Core State Standards	182,418	56,066
The Broad Foundation – Hunt Leadership Fellows	150,162	300,000
State Farm – Hunt Leadership Fellows	64,417	73,102
Schusterman Family Foundation – Common Core State Standards	50,000	-
Burroughs Wellcome Fund – Next Generation Science Standards	24,814	25,000
James B. Hunt Institute – Board of Directors' Individual Support for Hunt Leadership Fellows	11,500	-
Carnegie Corporation of New York – Next Generation Science Standards	-	163,168
Carnegie Corporation of New York – Digital Learning	-	162,039
Bill & Melinda Gates Foundation – Common Core Standards Adoption and Implementation	-	43,977
Bill & Melinda Gates Foundation – Governor's Education Symposium	-	10,895
Total	<u>\$ 2,861,593</u>	<u>\$ 2,334,247</u>

NOTE 7 COMMITMENTS AND CONTINGENCIES

Under certain grant agreements, the Foundation agrees to indemnify the grantor against, and at the Foundation's own expense undertake the defense of, any and all losses, claims, damages, liabilities, costs, expenses, assessments and taxes, whether resulting from negligence or otherwise, which is incurred by or asserted against the grantor. Any successful claims could have a material adverse effect on the Foundation's financial condition, results of operations and future prospects.