

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

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**Financial Statements**

**As of and for the Years Ended June 30, 2016 and 2015**



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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. (the "Foundation"), which comprise the statements of financial position as of June 30, 2016 and 2015, 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 the Foundation, as of June 30, 2016 and 2015 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 10, 2016**

**James B. Hunt, Jr. Institute for Educational Leadership  
and Policy Foundation, Inc.**  
**Statements of Financial Position**  
**June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 369,788	\$ 838,731
Grants receivable	826,353	740,549
Certificates of deposit	4,223,400	3,482,926
Short-term investments	-	499,800
Prepaid expenses	-	2,240
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 5,419,541</u>	<u>\$ 5,564,246</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable and accrued expenses	\$ 636,591	\$ 76,078
	<u>                    </u>	<u>                    </u>
Net assets:		
Unrestricted	2,258,980	3,315,544
Temporarily restricted	2,523,970	2,172,624
	<u>                    </u>	<u>                    </u>
Total net assets	<u>4,782,950</u>	<u>5,488,168</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 5,419,541</u>	<u>\$ 5,564,246</u>

**James B. Hunt, Jr. Institute for Educational Leadership  
and Policy Foundation, Inc.**  
**Statement of Operations**  
**For the Year Ended June 30, 2016**

	2016		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Grant	\$ 300,000	\$ 2,354,187	\$ 2,654,187
Interest and dividends	23,530	-	23,530
Miscellaneous	13,700	-	13,700
Total revenues	<u>337,230</u>	<u>2,354,187</u>	<u>2,691,417</u>
Net assets released from restrictions	<u>1,952,841</u>	<u>(1,952,841)</u>	<u>-</u>
Total revenues and restriction releases	<u>2,290,071</u>	<u>401,346</u>	<u>2,691,417</u>
<b>EXPENSES</b>			
Program activities:			
Payments to UNC - personnel and other	1,531,935	-	1,531,935
Programmatic consultants	454,947	-	454,947
Convening	246,703	-	246,703
Travel	179,061	-	179,061
Payments to UNC - rent	73,084	-	73,084
Research and subscription materials	14,269	-	14,269
Communications	13,755	-	13,755
Publications	9,062	-	9,062
Meetings	8,018	-	8,018
Total program activities	<u>2,530,834</u>	<u>-</u>	<u>2,530,834</u>
General and administrative:			
Payments to UNC - personnel and other	652,597	-	652,597
Administrative consultants	65,201	-	65,201
Equipment	30,074	-	30,074
Payments to UNC - rent	29,738	-	29,738
Miscellaneous	17,965	-	17,965
Phone	12,081	-	12,081
Materials and supplies	3,841	-	3,841
Postage and shipping	3,464	-	3,464
Bank charge	840	-	840
Total general and administrative	<u>815,801</u>	<u>-</u>	<u>815,801</u>
Total expenses	<u>3,346,635</u>	<u>-</u>	<u>3,346,635</u>
Loss from amended grant	<u>-</u>	<u>(50,000)</u>	<u>(50,000)</u>
Excess revenues over (under) expenses	<u>\$ (1,056,564)</u>	<u>\$ 351,346</u>	<u>\$ (705,218)</u>

The accompanying notes are an integral part of these financial statements.

**James B. Hunt, Jr. Institute for Educational Leadership  
and Policy Foundation, Inc.**  
**Statement of Operations**  
**For the Year Ended June 30, 2015**

	2015		
	Unrestricted	Temporarily Restricted	Total
<b>REVENUES</b>			
Grant	\$ 302,000	\$ 1,230,202	\$ 3,224,782
Contributions	339,889	-	201,955
Interest and dividends	11,826	-	4,181
Miscellaneous	8,600	-	13,500
Total revenues	<u>662,315</u>	<u>1,230,202</u>	<u>1,892,517</u>
Net assets released from restrictions	1,919,171	(1,919,171)	-
Total revenues and restriction releases	<u>2,581,486</u>	<u>(688,969)</u>	<u>1,892,517</u>
<b>EXPENSES</b>			
Program activities:			
Payments to UNC	957,637	-	957,637
Programmatic consultants	522,773	-	522,773
Travel	120,909	-	120,909
Convening	117,304	-	117,304
Communications	37,832	-	37,832
Materials for convening	15,469	-	15,469
Research and subscription materials	10,453	-	10,453
Meetings	10,397	-	10,397
Miscellaneous	2,360	-	2,360
Total program activities	<u>1,795,134</u>	<u>-</u>	<u>1,795,134</u>
General and administrative:			
Contributed administrative services	307,284	-	307,284
Administrative consultants	43,814	-	43,814
Contributed facilities	32,605	-	32,605
Meetings	13,519	-	13,519
Miscellaneous	9,495	-	9,495
Materials	6,428	-	6,428
Phone	5,428	-	5,428
Human resources	4,370	-	4,370
Postage and shipping	3,151	-	3,151
Office supplies	2,011	-	2,011
Research and subscription materials	1,705	-	1,705
Bank charge	1,178	-	1,178
Repairs and maintenance	55	-	55
Total general and administrative	<u>431,043</u>	<u>-</u>	<u>123,759</u>
Total expenses	<u>2,226,177</u>	<u>-</u>	<u>1,918,893</u>
Excess revenues over (under) expenses	<u>\$ 355,309</u>	<u>\$ (688,969)</u>	<u>\$ (333,660)</u>

The accompanying notes are an integral part of these financial statements.

**James B. Hunt, Jr. Institute for Educational Leadership  
and Policy Foundation, Inc.**  
**Statements of Changes in Net Assets**  
**For the Years Ended June 30, 2016 and 2015**

	<b>2015</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Net assets - beginning of year	\$ 2,960,235	\$ 2,861,593	\$ 5,821,828
Excess revenues over (under) expenses	<u>355,309</u>	<u>(688,969)</u>	<u>(333,660)</u>
Net assets - end of year	<u><u>\$ 3,315,544</u></u>	<u><u>\$ 2,172,624</u></u>	<u><u>\$ 5,488,168</u></u>
	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Net assets - beginning of year	\$ 3,315,544	\$ 2,172,624	\$ 5,488,168
Excess revenues over (under) expenses	<u>(1,056,564)</u>	<u>351,346</u>	<u>(705,218)</u>
Net assets - end of year	<u><u>\$ 2,258,980</u></u>	<u><u>\$ 2,523,970</u></u>	<u><u>\$ 4,782,950</u></u>



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

**Statements of Cash Flows**

**For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Excess revenues under expenses	\$ (705,218)	\$ (333,660)
Adjustments to reconcile excess revenues under expenses to net cash provided (used) by operating activities:		
Loss from amended grant	50,000	-
Unrealized gain on certificates of deposit	(2,400)	(1,926)
Change in:		
Grants receivable	(135,804)	538,248
Other receivables	-	88,372
Prepaid expenses	2,240	(2,240)
Accounts payable and accrued expenses	560,513	(6,099)
Net cash provided (used) by operating activities	<u>(230,669)</u>	<u>282,695</u>
Cash flows from investing activities:		
Purchase of certificates of deposit	(4,221,000)	(3,481,000)
Maturity of certificates of deposit	3,482,926	1,739,936
Maturity of investments	499,800	1,848,497
Net cash provided (used) by investing activities	<u>(238,274)</u>	<u>107,433</u>
Net change in cash and cash equivalents	(468,943)	390,128
Cash and cash equivalents - beginning of year	<u>838,731</u>	<u>448,603</u>
Cash and cash equivalents - end of year	<u>\$ 369,788</u>	<u>\$ 838,731</u>

The accompanying notes are an integral part of these financial statements.

## **Notes to the Financial Statements**

### **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. During 2016, the Foundation stopped receiving funding from UNC as disclosed in Note 5 and effective June 30, 2016 the Foundation and the Institute ended their relationship with UNC. Effective July 1, 2016, the Foundation operates as an independent nonprofit organization. Effective July 1, 2016, the Foundation entered into an affiliate relationship with Duke University.

### **2. Summary of Significant Accounting Policies**

#### ***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 and realized gains and losses are included in interest and dividends.

#### ***Investments***

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

#### ***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 three and two major grantors, representing 93% and 85% of revenues in fiscal 2016 and 2015, respectively. Two and three grantors represented 100% and 86% of accounts receivable at June 30, 2016 and June 30, 2015, respectively.

**James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc.**  
**Notes to the Financial Statements**

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***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, 2016 and 2015, 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. The Foundation has determined that no unrecognized tax liability exists at June 30, 2016. Furthermore, the Foundation believes there is no material income tax effect on the financial statements for stated 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, 2016, 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, 2016 or 2015.

***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.

***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 10, 2016, the date the financial statements were available to be issued.

### **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 short-term investments as of June 30, 2016 and 2015. Certain deposits are insured, up to certain limits, by the Federal Deposit Insurance Corporation and by the Securities Investor Protection 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.

### **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.

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 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 fiscal 2016 or 2015. There were no changes during fiscal 2016 or 2015 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

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

	<u>2015</u>
Treasury bill cost basis	\$ 499,736
Unrealized gains	<u>64</u>
Fair value	<u>\$ 499,800</u>

**James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc.**  
**Notes to the Financial Statements**

**5. Related Party Transactions**

University of North Carolina - In fiscal 2015, UNC received state appropriations earmarked to fund various programs. For the year ended June 30, 2015, the Institute received approximately \$894,000, to support operating costs for its programs. The Institute was required to submit an annual budget to UNC detailing the use of the funding. UNC maintained ownership of the funds, but released the funds as directed by the Institute. The Institute was required to expend the entire amount received by June 30 as the unused balance was reallocated to other UNC programs. Funding by UNC was eliminated effective July 1, 2015. The Foundation is a supporting organization for the Institute. Institute funding from UNC had previously lowered the required monthly payment from the Foundation to support Institute programs. For the year ended June 30, 2015 UNC paid the following expenses on behalf of the Institute. Salaries, taxes and benefits, and some operating expenses are included in the statements of operations:

	<u>2015</u>
Salaries	\$ 615,041
Taxes and benefits	157,215
Operating expenses	162,142
Administrative expenses	5,792
Other	<u>3,218</u>
Total expense	<u>\$ 943,408</u>

**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>2016</u>	<u>2015</u>
Bill & Melinda Gates Foundation – Hunt-Kean Leaders Fellowship	\$ 879,344	\$ 915,634
Carnegie Corporation – Carnegie Fellows	834,505	-
Bill & Melinda Gates Foundation – Common Core State Standards	355,594	317,990
Broad Foundation – Broad Fellows	193,409	-
Bill & Melinda Gates Foundation – IP Advocacy	185,201	-
State Farm – Hunt Leadership Fellows	64,417	64,417
James B. Hunt Institute – Board of Directors' Individual Support for Hunt Leadership Fellows	11,500	11,500
GE Foundation – Hunt Leadership Fellows	-	599,572
New Venture Fund	-	102,750
Schusterman Family Foundation – Common Core State Standards	-	101,549
Achieve, Inc. – Common Core State Standards	-	<u>59,212</u>
Total	<u>\$ 2,523,970</u>	<u>\$ 2,172,624</u>

**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.