

EducationNC

Financial Statements

June 30, 2019 and 2018

(With Independent Auditors' Report Thereon)

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Independent Auditors' Report

The Board of Directors
EducationNC:

We have audited the accompanying financial statements of EducationNC (a nonprofit organization), which comprise the statements of financial position as of June 30, 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.

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 auditors consider 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 EducationNC as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in note 1 to the financial statements, EducationNC adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Batchela, Jillery & Roberts, LLP

January 24, 2020

EducationNC
 Statements of Financial Position
 June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 1,248,320	1,144,807
Grants receivable, current portion	<u>533,333</u>	<u>865,000</u>
Total current assets	1,781,653	2,009,807
Grants receivable, net, less current portion	270,362	-
Other assets	86,766	65,267
Furniture and equipment, net of accumulated depreciation and amortization of \$43,895 in 2019 and \$39,707 in 2018	<u>34,594</u>	<u>4,412</u>
	<u>\$ 2,173,375</u>	<u>2,079,486</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Deferred revenue	5,000	-
Accounts payable and accrued expenses	<u>1,878</u>	<u>885</u>
Total current liabilities	<u>6,878</u>	<u>885</u>
Net assets:		
Without donor restrictions	137,633	100,775
With donor restrictions	<u>2,028,864</u>	<u>1,977,826</u>
Total net assets	<u>2,166,497</u>	<u>2,078,601</u>
	<u>\$ 2,173,375</u>	<u>2,079,486</u>

See accompanying notes to financial statements.

EducationNC

Statements of Activities

Year ended June 30, 2019,
with comparative totals for the year ended June 30, 2018

	2019			<u>2018</u>
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>	
Public support:				
Contributions	\$ 31,726	-	31,726	1,118,944
Grants	56,000	1,740,311	1,796,311	1,897,574
In-kind contributions	53,827	-	53,827	-
Other	110,486	-	110,486	17,887
	<u>252,039</u>	<u>1,740,311</u>	<u>1,992,350</u>	<u>3,034,405</u>
Net assets released from restrictions	<u>1,689,273</u>	<u>(1,689,273)</u>	<u>-</u>	<u>-</u>
Total public support	<u>1,941,312</u>	<u>51,038</u>	<u>1,992,350</u>	<u>3,034,405</u>
Expenses:				
Program services	<u>1,741,273</u>	<u>-</u>	<u>1,741,273</u>	<u>1,258,085</u>
Supporting services:				
Management and general	113,675	-	113,675	67,330
Fundraising	49,506	-	49,506	56,689
Total supporting services	<u>163,181</u>	<u>-</u>	<u>163,181</u>	<u>124,019</u>
Total expenses	<u>1,904,454</u>	<u>-</u>	<u>1,904,454</u>	<u>1,382,104</u>
Increase in net assets	36,858	51,038	87,896	1,652,301
Net assets, beginning of year	<u>100,775</u>	<u>1,977,826</u>	<u>2,078,601</u>	<u>426,300</u>
Net assets, end of year	\$ <u>137,633</u>	<u>2,028,864</u>	<u>2,166,497</u>	<u>2,078,601</u>

(Continued)

EducationNC

Statements of Activities, Continued

Year ended June 30, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Public support:			
Contributions	\$ 118,944	1,000,000	1,118,944
Grants	145,000	1,752,574	1,897,574
Other	17,887	-	17,887
	<u>281,831</u>	<u>2,752,574</u>	<u>3,034,405</u>
Net assets released from restrictions	<u>1,184,231</u>	<u>(1,184,231)</u>	<u>-</u>
Total public support	<u>1,466,062</u>	<u>1,568,343</u>	<u>3,034,405</u>
Expenses:			
Program services	<u>1,258,085</u>	<u>-</u>	<u>1,258,085</u>
Supporting services:			
Management and general	67,330	-	67,330
Fundraising	56,689	-	56,689
Total supporting services	<u>124,019</u>	<u>-</u>	<u>124,019</u>
Total expenses	<u>1,382,104</u>	<u>-</u>	<u>1,382,104</u>
Increase in net assets	83,958	1,568,343	1,652,301
Net assets, beginning of year	<u>16,817</u>	<u>409,483</u>	<u>426,300</u>
Net assets, end of year	\$ <u>100,775</u>	<u>1,977,826</u>	<u>2,078,601</u>

See accompanying notes to financial statements.

EducationNC

Statements of Functional Expenses

Year ended June 30, 2019,
with comparative totals for the year ended June 30, 2018

	2019				<u>2018</u>
	<u>Program services</u>	<u>Supporting Services</u>		<u>Total</u>	
		<u>Management and general</u>	<u>Fundraising</u>		
Salaries	\$ 775,367	56,212	13,375	844,954	535,000
Contracted services	460,904	7,647	31,822	500,373	529,939
Travel and meetings	246,689	8,655	318	255,662	129,499
Payroll taxes and benefits	61,968	6,719	1,221	69,908	44,145
Online services	60,010	1,027	2,770	63,807	59,423
In-kind expenses	53,827	-	-	53,827	-
Media engagement	50,185	60	-	50,245	31,238
Rent	17,840	-	-	17,840	14,100
Professional fees	-	14,792	-	14,792	2,525
Insurance	-	11,286	-	11,286	10,094
Books, subscriptions, and supplies	9,379	926	-	10,305	5,648
Printing, copying, and mailing	4,228	392	-	4,620	1,254
Depreciation and amortization	-	4,188	-	4,188	7,915
Miscellaneous	876	1,771	-	2,647	11,324
	<u>\$ 1,741,273</u>	<u>113,675</u>	<u>49,506</u>	<u>1,904,454</u>	<u>1,382,104</u>

(Continued)

EducationNC

Statements of Functional Expenses, Continued

Year ended June 30, 2018

	Program	Supporting Services		Total
		services	Management and general	
Salaries	\$ 485,437	28,500	21,063	535,000
Contracted services	500,829	850	28,260	529,939
Travel and meetings	117,933	11,428	138	129,499
Online services	54,029	380	5,014	59,423
Payroll taxes and benefits	39,735	2,773	1,637	44,145
Media engagement	30,888	350	-	31,238
Rent	14,100	-	-	14,100
Insurance	-	10,094	-	10,094
Depreciation and amortization	-	7,915	-	7,915
Books, subscriptions, and supplies	3,968	1,167	513	5,648
Professional fees	-	2,525	-	2,525
Printing, copying, and mailing	921	333	-	1,254
Miscellaneous	<u>10,245</u>	<u>1,015</u>	<u>64</u>	<u>11,324</u>
	\$ <u>1,258,085</u>	<u>67,330</u>	<u>56,689</u>	<u>1,382,104</u>

See accompanying notes to financial statements.

EducationNC

Statements of Cash Flows

Years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ 87,896	1,652,301
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	4,188	7,915
Changes in operating assets and liabilities:		
Grants receivable	331,667	(715,000)
Other assets	(21,500)	(65,267)
Deferred revenue	5,000	-
Accounts payable and accrued expenses	<u>993</u>	<u>(6,319)</u>
Net cash provided by operating activities	408,244	873,630
Cash flows used in investing activities - purchases of furniture, technology and equipment	<u>(34,369)</u>	<u>(3,325)</u>
Net increase in cash and cash equivalents	373,875	870,305
Cash and cash equivalents, beginning of year	<u>1,144,807</u>	<u>274,502</u>
Cash and cash equivalents, end of year	\$ <u>1,518,682</u>	<u>1,144,807</u>

See accompanying notes to financial statements.

EducationNC

Notes to Financial Statements

June 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

EducationNC (the "Organization") was established as an independent, nonprofit organization that seeks to expand the educational opportunities for all children in North Carolina, increase their academic attainment, and improve the performance of the state's public schools. The Organization provides the state with data, research, news, information, and analysis about the major trends, issues, and challenges facing public schools. The Organization seeks to be a trusted source of information and the architecture for public participation in a statewide conversation about schools. The primary sources of revenue are foundation grants and corporate and individual contributions.

(b) Basis of Presentation and Use of Estimates

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Organization considers all highly liquid short-term investments with an original maturity of three months or less to be cash equivalents. For purposes of the statement of cash flows, the Organization considers cash in the bank and all cash held on hand to be cash and cash equivalents. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. There were uninsured cash balances of \$998,320 and \$894,807 as of June 30, 2019 and 2018, respectively.

(d) Contributions and Grants Receivable

Contributions and grants received are recorded as support with donor or without donor restrictions depending on the existence and/or nature of any donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value (net of estimated uncollectible amounts). Unconditional promises to give due in subsequent years are reported at the present value of expected cash flows using market interest rates applicable to the years in which the promises are to be received. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

(d) Contributions and Grants Receivable, Continued

Grants and other receivables that are expected to be collected within one year are recorded at their net realizable value. Grants receivables that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using a risk-adjusted discount rate at the date of gift. Amortization of the discount is included in grants revenue. A discount allowance for possible uncollectible amounts of \$12,972 is recorded as of June 30, 2019. A discount allowance was not considered necessary as of June 30, 2018.

(e) Other Revenues

Other revenues relate to consulting services performed by the Organization and were deemed to be earned and reported as the Organization performed such services.

(f) Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable state statutes on its exempt function income and is classified as a publicly supported organization. There was no unrelated business income for 2019 and 2018.

(g) Furniture and Equipment

Furniture, equipment, software and website are reported at cost. Cost for donated assets is established based upon fair market value or replacement cost at time of donation. Depreciation and amortization are computed using the straight-line method, half-year convention, over the estimated useful lives of the assets of three years.

(h) Donated Assets and Services

Donated materials, equipment, and services are recorded at their estimated fair market values at date of receipt and are reflected as contributions in the accompanying financial statements. Donated assets and services totaled \$53,827 and \$0 in 2019 and 2018, respectively.

(i) Other Assets

Other assets include prepaid contract expenses for software coding that has a three-year estimated useful life. This prepaid asset was valued at \$85,166 and \$63,667 as of June 30, 2019 and 2018, respectively.

(j) Deferred Revenue

Deferred revenue relates to amounts received in advance for program services for Reach NC Voices tools. Deferred revenue totaled \$5,000 and \$0 in 2019 and 2018, respectively.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(1) Organization and Summary of Significant Accounting Policies, Continued

(k) Functional Expenses

Expenditures not directly attributable to specific programs or support services are allocated to program or support services by the Organization's management based on what it considers to be the best available objective criteria, such as hours worked or relative benefit.

(l) Adoption of New Accounting Standard

For 2019, EducationNC adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the description of the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets are now reported as net assets with donor restrictions. In addition, a schedule of functional expenses is presented in the notes to the financial statements, and information regarding liquidity and availability of resources is presented in the notes to the financial statements

(m) Selected Recent Accounting Pronouncements

The Financial Accounting Standards Board has issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) with the scope of Topic 958, Not-for Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. ASU 2018-08 will be effective for the Organization beginning July 1, 2019.

The FASB has issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. ASU 2014-09 will be effective for the Organization beginning July 1, 2019.

The FASB has issued ASU 2016-02, *Leases*, which, among other things, requires the recognition of lease assets and lease liabilities by lessees, including for those leases classified as operating leases under previous GAAP, along with the disclosure of key information about leasing arrangements. ASU 2016-02 is effective for the Organization beginning July 1, 2021.

Management is in the process of assessing the impact of these new accounting standards.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(2) Information Regarding Liquidity and Availability

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities, as well as the conduct of services undertaken to support those activities, to be general expenditures.

The Organization's financial assets as of June 30, 2019, all of which are available to meet general expenditures within one year of the financial statement date, are as follows:

Financial assets available to meet cash needs
for general expenditures within one year:

Cash and cash equivalents	\$ <u>1,248,320</u>
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In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue, primarily through grants and contributions, to cover general expenditures.

(3) Grants Receivable

Grants receivable consist of the following:

<u>Source</u>	<u>2019</u>	<u>2018</u>	<u>Purpose</u>
Oak Foundation	\$ 266,667	-	Support for learning differences and equity
Z. Smith Reynolds Foundation	250,000	125,000	General operations
Bill & Melinda Gates Foundation	150,000	-	Support media coverage and policymaker engagement efforts within and across NC
The Duke Endowment	100,000	210,000	Rural adolescent faith
SECU Foundation	50,000	-	First Vote NC program
John M. Belk Foundation	-	500,000	Launch statewide coverage of postsecondary education and workforce
Belk Foundation	<u>-</u>	<u>30,000</u>	General operations
	816,667	865,000	
Discount at 4.0%	<u>(12,972)</u>	<u>-</u>	
Grants receivable, net of discounts	\$ <u><u>803,695</u></u>	<u><u>865,000</u></u>	

EducationNC

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(3) Grants Receivable, Continued

Grants receivable as of June 30, 2019 are scheduled to be received as follows:

Within one year	\$	533,333
Within two years		233,334
Within three years		<u>50,000</u>
		816,667
Less discount to present value 4.0%		<u>(12,972)</u>
	\$	<u><u>803,695</u></u>

(4) Restrictions on Net Assets

Net assets with donor restrictions are restricted for the following purposes as summarized below:

<u>Source</u>	<u>2019</u>	<u>2018</u>	<u>Restriction</u>
Subject to expenditure for the passage of time:			
Z. Smith Reynolds Foundation	\$ 250,000	125,000	Operations, once received
Belk Foundation	<u>-</u>	<u>30,000</u>	Operations, once received
	<u>250,000</u>	<u>155,000</u>	
Subject to expenditure for specified purpose:			
John M. Belk Endowment	833,543	968,665	Launch statewide coverage of postsecondary education and workforce
Oak Foundation	316,365	-	Support for learning differences and equity
Bill & Melinda Gates Foundation	175,927	-	Support media coverage and policymaker engagement efforts within and across NC
SECU Foundation	108,878	-	First Vote NC program
Duke Endowment	103,667	244,949	Rural adolescent faith
Blue Cross Blue Shield of NC	96,699	496,484	Reach NC Voices
News Integrity Initiative	91,303	28,115	Reach NC Voices
John William Pope Foundation	25,000	-	School choice
Newslab/NC Community Foundation	25,000	-	Hurricane recovery
Duke Energy Foundation	15,454	25,000	STEM education
Kenan Charitable Trust	-	34,352	Adolescent equity
ChildTrust Foundation	<u>-</u>	<u>25,261</u>	Early childhood reporting in NC
	1,791,836	1,822,826	
Discount at 4.0%	<u>(12,972)</u>	<u>-</u>	
	\$ <u><u>2,028,864</u></u>	<u><u>1,977,826</u></u>	

Net assets released from donor restrictions by accomplishing purpose or time restrictions were \$1,689,273 and \$1,184,231 in 2019 and 2018, respectively.

Notes to Financial Statements, Continued

June 30, 2019 and 2018

(5) Concentrations

Contributions and grants from six and three donors totaled 85% and 80% of public support in 2019 and 2018, respectively.

(6) Related Party Transactions

During 2019 and 2018, respectively, the Organization paid \$35,001 and \$60,000 for services related to writing and editing to a board of director member and an entity related to a board of director member.

(7) Lease

Effective January 1, 2018, the Organization entered into a short-term lease for office space that expired June 30, 2018. On July 1, 2018, the Organization renewed the lease which expired January 1, 2019. Subsequently, the Organization began paying rent month-to-month. Rent expense under this lease totaled \$17,840 and \$14,100 during 2019 and 2018, respectively.

(8) Subsequent Events

The date to which events occurring after June 30, 2019, the date of the most recent statement of financial position, have been evaluated for possible adjustment to the financial statements or disclosure is January 24, 2020, the date the financial statements were available to be issued.