



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED AUGUST 31, 2014 AND 2013***

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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Students for Education Reform, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of Students for Education Reform, Inc., which comprise the statements of financial position as of August 31, 2014 and 2013, and the related statements of activities, cash flows and functional expenses 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 audits 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 Students for Education Reform, Inc. as of August 31, 2014 and 2013, 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.

Dorfman Abrams Music, LLC

Saddle Brook, New Jersey

December 14, 2014



STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	August 31,	
	<u>2014</u>	<u>2013</u>
Assets:		
Cash and cash equivalents	\$ 886,854	\$ 1,006,023
Grants receivable	130,600	421,902
Prepaid expenses and other assets	29,274	21,958
Security deposit	68,280	71,090
Furniture, equipment and leasehold improvements, net	17,272	33,810
	<u>\$ 1,132,280</u>	<u>\$ 1,554,783</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 139,780	\$ 74,611
Due to SFER Action Network	94,107	
Due to funder	256,804	
	<u>490,691</u>	<u>74,611</u>
Net assets:		
Unrestricted	552,995	22,963
Temporarily restricted	88,594	1,457,209
	<u>641,589</u>	<u>1,480,172</u>
	<u>\$ 1,132,280</u>	<u>\$ 1,554,783</u>

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF ACTIVITIES

	Year ended August 31, 2014			Year ended August 31, 2013		
	Unrestricted	Temporarily restricted	Total	Unrestricted	Temporarily restricted	Total
Support:						
Private support:						
Contributions	\$ 847,380	\$ 485,000	\$ 1,332,380	\$ 611,793	\$ 1,700,000	\$ 2,311,793
In-kind donations	49,333		49,333	4,267		4,267
Total private support	896,713	485,000	1,381,713	616,060	1,700,000	2,316,060
Revenues:						
Administration fees	92,355		92,355	33,380		33,380
Miscellaneous	4,587		4,587	4,440		4,440
Partnership fees	600		600	5,375		5,375
Total revenues	97,542		97,542	43,195		43,195
Net assets released from restrictions	1,853,615	(1,853,615)		1,541,707	(1,541,707)	
Total private support and revenues	2,847,870	(1,368,615)	1,479,255	2,200,962	158,293	2,359,255
Expenses:						
Program services:						
Training and leadership development	895,487		895,487	1,182,126		1,182,126
State initiatives	719,065		719,065	587,075		587,075
Total program services	1,614,552		1,614,552	1,769,201		1,769,201
Support services:						
Fundraising	162,410		162,410	128,877		128,877
Management and general	284,072		284,072	289,931		289,931
Total support services	446,482		446,482	418,808		418,808
Total expenses	2,061,034		2,061,034	2,188,009		2,188,009
Refundable conditional grant	256,804		256,804			
Change in net assets	530,032	(1,368,615)	(838,583)	12,953	158,293	171,246
Net assets, beginning of year	22,963	1,457,209	1,480,172	10,010	1,298,916	1,308,926
Net assets, end of year	\$ 552,995	\$ 88,594	\$ 641,589	\$ 22,963	\$ 1,457,209	\$ 1,480,172

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF CASH FLOWS

	<u>Year ended August 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ (838,583)	\$ 171,246
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	16,538	14,133
Discount on contributions receivable	(3,098)	(14,838)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	294,400	69,370
Prepaid expenses and other assets	(7,316)	(18,010)
Security deposit	2,810	(71,090)
Increase in:		
Accounts payable and accrued expenses	65,169	35,582
Due to SFER Action Network	94,107	
Due to funder	256,804	
Net cash provided (used) by operating activities	<u>(119,169)</u>	<u>186,393</u>
Cash flows from investing activities:		
Purchase of property and equipment		(22,077)
Disposal of equipment		3,732
Net cash used by investing activities		<u>(18,345)</u>
Net increase (decrease) in cash and cash equivalents	(119,169)	168,048
Cash and cash equivalents, beginning of year	<u>1,006,023</u>	<u>837,975</u>
Cash and cash equivalents, end of year	<u>\$ 886,854</u>	<u>\$ 1,006,023</u>

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended August 31, 2014 and 2013

	Program services						Support services						Total expenses	
	Training and leadership development		State initiatives		Total program services		Fundraising		Management and general		Total support services			
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Salaries	\$ 178,623	\$ 494,583	\$ 336,135	\$ 245,014	\$ 514,758	\$ 739,597	\$ 83,642	\$ 62,478	\$ 154,756	\$ 146,148	\$ 238,398	\$ 208,626	\$ 753,156	\$ 948,223
Payroll taxes and employee benefits	32,445	78,985	73,541	39,129	105,986	118,114	21,622	9,978	59,198	23,340	80,820	33,318	186,806	151,432
Travel and meetings	293,207	262,867	79,600	133,226	372,807	396,093	32,940	16,674	22,967	32,434	55,907	49,108	428,714	445,201
Communications and development	49,357	12,325	49,925	5,318	99,282	17,643	432	4,499	1,827	3,251	2,259	7,750	101,541	25,393
Professional fees	45,982	178,467	54,730	80,467	100,712	258,934	7,668	20,173	13,419	47,188	21,087	67,361	121,799	326,295
Filing and registrations fees			1,115		1,115				2,865	967	2,865	967	3,980	967
Occupancy	59,936	71,855	63,384	39,898	123,320	111,753	11,987	9,077	20,978	21,233	32,965	30,310	156,285	142,063
Chapters and local volunteers			33,470	17,183	33,470	17,183							33,470	17,183
Grants and awards to others	210,000	25,000			210,000	25,000							210,000	25,000
Staff development	2,765	14,923	3,607	52	6,372	14,975							6,372	14,975
Other office expenses	2,232	3,203	2,250	3,011	4,482	6,214	275		481	84	756	84	5,238	6,298
Bank fees									361	890	361	890	361	890
Office supplies	3,299	3,821	3,767	2,609	7,066	6,430	538	972	942	805	1,480	1,777	8,546	8,207
Telephone and telecommunications	5,273	20,537	5,624	12,389	10,897	32,926	994	2,666	1,739	5,824	2,733	8,490	13,630	41,416
Postage and delivery	630	2,012	666	902	1,296	2,914	122	277	214	536	336	813	1,632	3,727
Printing and copying	1,580	3,573	1,600	2,936	3,180	6,509	158	823	770	553	928	1,376	4,108	7,885
Insurance	3,543	2,603	3,366	1,289	6,909	3,892	709	329	1,240	769	1,949	1,098	8,858	4,990
Equipment write off										1,835		1,835		1,835
Casualty loss										1,896		1,896		1,896
Depreciation	6,615	7,372	6,285	3,652	12,900	11,024	1,323	931	2,315	2,178	3,638	3,109	16,538	14,133
	<u>\$ 895,487</u>	<u>\$ 1,182,126</u>	<u>\$ 719,065</u>	<u>\$ 587,075</u>	<u>\$ 1,614,552</u>	<u>\$ 1,769,201</u>	<u>\$ 162,410</u>	<u>\$ 128,877</u>	<u>\$ 284,072</u>	<u>\$ 289,931</u>	<u>\$ 446,482</u>	<u>\$ 418,808</u>	<u>\$ 2,061,034</u>	<u>\$ 2,188,009</u>

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

1. Summary of significant accounting policies

This summary of significant accounting policies of Students for Education Reform, Inc. (SFER) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America as promulgated in *FASB Accounting Standards Codification* (the Codification), and have been consistently applied in the preparation of the financial statements.

History and objectives of the Organization

Students for Education Reform, Inc. is a New Jersey not-for-profit corporation founded in November 2010. SFER's purpose is to organize university students across the nation in order to lead education reform awareness, understanding and engagement activities, and to bring student voices together as stakeholders in the education system.

Basis of presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of any income earned on any related investments for general or specific purposes. The Organization maintained no such net assets as of August 31, 2014 and 2013.

Cash and cash equivalents

Cash consists primarily of demand deposit accounts. Cash equivalents are stated at cost, which approximates market value.

Contributions

Contributions, including unconditional pledges, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. Pledges are recognized when the conditions on which they depend are substantially met. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Conditional pledges are recognized as income when the conditions of the pledge are met.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

1. Summary of significant accounting policies (continued)

Grants receivable

Grants receivable are stated at unpaid balances, less an allowance for doubtful accounts. SFER provides for losses on grants receivable using the allowance method. The allowance is based on management's knowledge of which individual receivables are likely to not be collected. Management has determined that an allowance was not necessary for the fiscal years ended August 31, 2014 and 2013.

Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are recorded at cost. SFER capitalizes all expenditures in excess of \$500. Depreciation is provided principally on the straight-line method at rates based on the following estimated useful lives:

Computer equipment	3 years
Furniture and fixtures	5 years

The cost of assets sold or otherwise disposed of and the accumulated depreciation thereon are eliminated from the accounts and the resulting gain or loss is reflected in income. Expenditures for maintenance and repairs are charged to income as incurred; replacements and betterments that extend the useful lives are capitalized.

Estimates

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

Income taxes

SFER is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional expenses allocation

The cost of providing for SFER's various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Partnership fees

SFER provides consulting services to unrelated nonprofit organizations that organize students for educational reform purposes. Consulting service fees are recognized as earned and reported on the statement of activities as partnership fees. Partnership fees amounted to \$600 and \$5,375 in 2014 and 2013, respectively.

Donated materials and services

SFER records the value of donated materials or services when there is an objective basis available to measure their value and when donated services enhance non-financial assets or require a specialized skill, which the Organization would otherwise need to purchase. Such specialized donated materials and services amounted to \$49,333 and \$4,267 in 2014 and 2013, respectively.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

1. Summary of significant accounting policies (continued)

Uncertain tax positions

As of August 31, 2014, management believes that based on evaluation of SFER's tax positions that any liability as a result of uncertain tax positions would not be material. Management continually evaluates expiring statutes of limitations, changes in tax law, and new authoritative rulings to assist in evaluating SFER's tax positions. Accrued interest and penalties associated with uncertain tax positions, if any, would be recognized as part of the income tax provision. Income tax returns are filed in the U.S federal jurisdiction and state jurisdictions. SFER is subject to examination by applicable tax jurisdictions since inception in 2010.

2. Risks and uncertainties

Financial instruments that potentially subject SFER to concentrations of credit risk consist principally of cash and cash equivalents, and grants receivable. SFER maintains its cash in bank deposit accounts, the balances of which, at times, may exceed federally insured limits. Cash and cash equivalents are maintained at financial institutions. Exposure to credit risk is reduced by placing such deposits in high quality financial institutions. Concentrations of credit risk with respect to grants receivable is reduced due to the fact that the receivables are from members of the Board of Directors, their companies, and other prominent foundations and individuals.

For the year ended August 31, 2014, two donors accounted for approximately 48% of total contributions, of which the largest donor represented 27% of total contributions. For the year ended August 31, 2013, three donors accounted for approximately 68% of total contributions, of which the largest donor represented 40% of total contributions.

3. Grants receivable

Grants receivable that are expected to be collected within one year are recorded at their net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates of 3.25% in 2013.

The grants receivable consist of the following as of August 31:

	<u>2014</u>	<u>2013</u>
One year or less	\$ 130,600	\$ 375,000
One to five years		<u>50,000</u>
	<u>130,600</u>	425,000
Less discount on grants receivable		<u>3,098</u>
	<u>\$ 130,600</u>	<u>\$ 421,902</u>

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

4. Furniture, equipment and leasehold improvements

A summary of furniture, equipment and leasehold improvement consist of the following at August 31:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 11,916	\$ 11,916
Computer equipment	35,060	35,060
Furniture and fixtures	<u>4,399</u>	<u>4,399</u>
	51,375	51,375
Less accumulated depreciation	<u>34,103</u>	<u>17,565</u>
	<u>\$ 17,272</u>	<u>\$ 33,810</u>

Depreciation expense was \$16,538 and \$14,133 in 2014 and 2013, respectively.

5. Due to funder

SFER received a two year grant from a donor that contained conditions and a time frame for the completion of the grant. While SFER met the conditions of the grant, it did not expend all of the grant funds by the grant expiration date. In accordance with the terms of the grant, the organization has recognized a liability of \$256,804 for the unspent grant funds.

6. Commitments and contingencies

Leases

On September, 2012, the Organization entered into a 3 year operating lease agreement to rent office space for their administrative offices. The agreement expires on September 19, 2015.

Minimum annual rental payments required are as follows:

Year ending August 31:	
2015	\$ 133,673
2016	<u>10,500</u>
	<u>\$ 144,173</u>

On October 22, 2014, SFER sub-leased their administrative offices to City Year, Inc. As part of the sub-lease agreement, City Year, Inc. agreed to pay SFER \$11,000 per month commencing December 1, 2014. The agreement between SFER and the sub-lessee expires with the expiration of the original lease on September 27, 2015.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

6. Commitments and contingencies (continued)

Minimum annual rental payments from tenant are as follows:

Year ending August 31:		
2015	\$	99,000
2016		<u>11,000</u>
	\$	<u>110,000</u>

SFER entered into a lease agreement with WorkHouse for a six month lease for its administrative offices commencing on October 1, 2014. As part of the agreement, SFER will pay WorkHouse a monthly rent fee of \$6,025.

7. Temporarily restricted net assets/net assets released from restrictions

Temporarily restricted net assets consist of the following at August 31:

	<u>2014</u>	<u>2013</u>
State Initiatives Program	\$ 38,594	\$ 1,060,307
Time restriction	<u>50,000</u>	<u>396,902</u>
	<u>\$ 88,594</u>	<u>\$ 1,457,209</u>

Temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time. The net assets released from restriction for the years ended August 31, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
State Initiatives Program	\$ 1,506,713	\$ 1,312,175
Time restriction	<u>346,902</u>	<u>229,532</u>
	<u>\$ 1,853,615</u>	<u>\$ 1,541,707</u>

8. Employee service agreement

During fiscal year 2012, the Organization entered into an agreement with TotalHR, LLC. The agreement is for an indefinite period of time and either party can terminate the contract after sixty (60) days written notice. TotalHR is responsible for tax withholding, payments and reporting of all payroll taxes. It is also responsible for the maintenance of workers' compensation insurance, benefit plan and retirement plan for the employees. The Organization is responsible for maintaining general liability insurance. SFER terminated the agreement with TotalHR, LLC as of August 31, 2013.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2014 and 2013

9. Related party transactions

On June 1, 2013, SFER Action Network, Inc. and Students for Education Reform, Inc. entered into a cost sharing agreement. Under the agreement, SFER Action Network, Inc. agreed to reimburse SFER for administrative fees for sharing their personnel and facilities. Payment of services of jointly employed personnel is based on actual hours worked and the corresponding fringe benefits of each employee. Payment of overhead costs is calculated based on the percentage obtained by comparing total salary charged to SFER Action Network, Inc. to total salaries. Administrative fees totaling \$92,355 and \$33,380 were collected from SFER Action Network, Inc. during the fiscal years ended August 31, 2014 and 2013, respectively.

During the year ended August 31, 2013, SFER retained SFER Action Network, Inc. to provide lobbying, grassroots mobilization, online activism and community building, website development and maintenance and public education. In relation with these services, SFER granted \$15,000 and \$25,000 to SFER Action Network, Inc. as of August 31, 2014 and 2013, respectively.

In June 2014, the organization entered into a grant agreement with SFER Action Network, Inc. for the purpose of providing funding for the fellowship program. As part of this agreement, SFER agrees to make a series of grants to SFER Action Network, Inc. to support the fellowship program exclusively for training and leadership development. SFER granted a total of \$195,000 to SFER Action Network during the year ended August 31, 2014.

As of August 31, 2014, the Organization owes \$94,107 for expenses paid or advances made on behalf of SFER by SFER Action Network, Inc. These amounts are settled in the ordinary course of business.

10. Subsequent events

Subsequent events have been evaluated through December 14, 2014, which is the date the financial statements were available to be issued.

On September 23, 2014, SFER received a letter from a donor requesting unexpended grant funds for a grant that had expired and for which remaining funds were reported (see Note 5). SFER set up a liability for the funds owed to the funder as of August 31, 2014.

On October 22, 2014, SFER sub-leased their administrative offices and relocated into a new location, see Note 6.