



***FINANCIAL STATEMENTS  
WITH INDEPENDENT AUDITORS' REPORT  
YEARS ENDED AUGUST 31, 2015 AND 2014***

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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, 2015 and 2014, 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, 2015 and 2014, 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 16, 2015

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	August 31,	
	<u>2015</u>	<u>2014</u>
Assets:		
Cash and cash equivalents	\$ 1,080,462	\$ 886,854
Grants receivable, net	932,614	130,600
Other receivables	11,894	1,878
Prepaid expenses and other assets	41,593	27,396
Security deposit	77,825	68,280
Furniture, equipment and leasehold improvements, net	15,204	17,272
	<u>\$ 2,159,592</u>	<u>\$ 1,132,280</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 164,820	\$ 139,780
Due to SFER Action Network	149,732	94,107
Due to funder		256,804
	<u>314,552</u>	<u>490,691</u>
Net assets:		
Unrestricted	774,325	552,995
Temporarily restricted	1,070,715	88,594
	<u>1,845,040</u>	<u>641,589</u>
	<u>\$ 2,159,592</u>	<u>\$ 1,132,280</u>

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF ACTIVITIES

	Year ended August 31, 2015		Year ended August 31, 2014	
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted
Support:				
Private support:				
Contributions	\$ 2,169,771	\$ 1,640,614	\$ 847,380	\$ 485,000
In-kind donations	16,667	16,667	49,333	49,333
Total private support	2,186,438	1,640,614	896,713	485,000
Revenues:				
Administration fees	100,896	100,896	92,355	92,355
Rental income	99,425	99,425		
Miscellaneous	9,201	9,201	4,587	4,587
Partnership fees	35,095	35,095	600	600
Total revenues	244,617	244,617	97,542	97,542
Net assets released from restrictions	658,493	(658,493)	1,853,615	(1,853,615)
Total private support and revenues	3,089,548	982,121	2,847,870	(1,368,615)
Expenses:				
Program services:				
Training and leadership development	1,359,173	1,359,173	880,487	880,487
State initiatives	965,775	965,775	734,065	734,065
Total program services	2,324,948	2,324,948	1,614,552	1,614,552
Support services:				
Fundraising	171,412	171,412	162,410	162,410
Management and general	371,858	371,858	284,072	284,072
Total support services	543,270	543,270	446,482	446,482
Total expenses	2,868,218	2,868,218	2,061,034	2,061,034
Refundable conditional grant			256,804	256,804
Change in net assets	221,330	982,121	530,032	(1,368,615)
Net assets, beginning of year	552,995	88,594	22,963	1,457,209
Net assets, end of year	\$ 774,325	\$ 1,070,715	\$ 552,995	\$ 88,594

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF CASH FLOWS

	Year ended August 31,	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,203,451	\$ (838,583)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	13,698	16,538
Discount on contributions receivable	37,386	(3,098)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(839,400)	294,400
Accounts receivable	(10,016)	1,878
Prepaid expenses and other assets	(14,197)	(9,194)
Security deposit	(9,545)	2,810
Increase (decrease) in:		
Accounts payable and accrued expenses	25,040	65,169
Due to SFER Action Network	55,625	94,107
Due to funder	(256,804)	256,804
Net cash provided (used) by operating activities	<u>205,238</u>	<u>(119,169)</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(11,630)</u>	
Net cash used by investing activities	<u>(11,630)</u>	
Net increase (decrease) in cash and cash equivalents	193,608	(119,169)
Cash and cash equivalents, beginning of year	<u>886,854</u>	<u>1,006,023</u>
Cash and cash equivalents, end of year	<u>\$ 1,080,462</u>	<u>\$ 886,854</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, 2015 and 2014

	Program services						Support services											
	Training and leadership development			Total program services			Fundraising			Management and general			Total support services			Total expenses		
	2015	2014		2015	2014		2015	2014		2015	2014		2015	2014		2015	2014	
Salaries	\$ 371,861	\$ 178,623	\$ 278,288	\$ 336,135	\$ 514,758	\$ 77,780	\$ 83,642	\$ 210,339	\$ 154,756	\$ 288,119	\$ 238,398	\$ 938,288	\$ 753,156					
Payroll taxes and employee benefits	78,424	32,445	59,582	73,541	105,986	17,300	21,622	72,235	59,198	89,535	80,820	227,541	186,806					
Travel and meetings	342,807	293,207	163,393	79,600	372,807	28,801	32,940	34,478	22,967	63,279	55,907	569,479	428,714					
Communications and development	58,746	49,357	128,978	49,925	99,282	176	432	580	1,827	756	2,259	188,480	101,541					
Professional fees	180,380	45,982	159,004	54,730	339,384	100,712	7,668	13,455	13,419	31,205	21,087	370,589	121,799					
Filing and registrations fees			722	1,115	1,115			1,297	2,865	1,297	2,865	2,019	3,980					
Occupancy	88,791	59,936	96,929	63,384	185,720	22,515	11,987	29,270	20,978	51,785	32,965	237,505	156,285					
Student stipends and awards	2,450	195,000	31,050	33,470	33,470							33,500	33,470					
Grants and awards to others	210,000			15,000	210,000							210,000	210,000					
Staff development	2,400	2,765	175	3,607	2,575	6,372		2,384		2,384	756	4,959	6,372					
Other office expenses	2,143	2,232	15,454	2,250	17,597	2,775	275	1,986	481	4,761	756	22,358	5,238					
Bank fees			39		39			275	361	275	361	314	361					
Office supplies	2,942	3,299	9,320	3,767	12,262	590	538	766	942	1,356	1,480	13,618	8,546					
Telephone and telecommunications	10,090	5,273	11,350	5,624	10,897	1,596	994	2,074	1,739	3,670	2,733	25,110	13,630					
Postage and delivery	1,004	630	1,971	666	2,975	179	122	233	214	412	336	3,387	1,632					
Printing and copying	117	1,580	2,777	1,600	2,894	163	158	161	770	324	928	3,218	4,108					
Insurance	1,639	3,543	1,575	3,366	3,214	417	709	544	1,240	961	1,949	4,175	8,858					
Depreciation	5,379	6,615	5,168	6,285	10,547	1,370	1,323	1,781	2,315	3,151	3,638	13,698	16,538					
	<u>\$ 1,359,173</u>	<u>\$ 880,487</u>	<u>\$ 965,775</u>	<u>\$ 734,065</u>	<u>\$ 2,324,948</u>	<u>\$ 171,412</u>	<u>\$ 162,410</u>	<u>\$ 371,858</u>	<u>\$ 284,072</u>	<u>\$ 543,270</u>	<u>\$ 446,482</u>	<u>\$ 2,868,218</u>	<u>\$ 2,061,034</u>					

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

# STUDENTS FOR EDUCATION REFORM, INC.

## NOTES TO FINANCIAL STATEMENTS

August 31, 2015 and 2014

### 1. Summary of significant accounting policies

This summary of significant accounting policies of Students for Education Reform, Inc. (SFER or the Organization) 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, 2015 and 2014.

#### 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, 2015 and 2014

1. Summary of significant accounting policies (continued)

Grants receivable and other receivables

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, 2015 and 2014.

Other receivables primarily represent amounts owed by various organizations for expense reimbursements and a loan receivable. All other receivables are expected to be collected within one year.

Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are recorded at cost. SFER capitalizes all expenditures in excess of \$5,000. Depreciation is provided principally on the straight-line method at rates based on the following estimated useful lives:

Leasehold improvements	3 years
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.

Reclassifications

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 financial statement presentation.

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.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2015 and 2014

1. Summary of significant accounting policies (continued)

Partnership fees

SFER provides consulting services to unrelated not-for-profit 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 \$35,095 and \$600 in 2015 and 2014, respectively.

Donated services

SFER records the value of donated 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 services amounted to \$16,667 and \$49,333 in 2015 and 2014, respectively.

Uncertain tax positions

As of August 31, 2015, 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 2011.

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, 2015, three donors accounted for approximately 59% of total contributions, of which the largest donor represented 26% of total contributions. 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.

As of August 31, 2015, one donor accounted for 82% of the grants receivable balance. As of August 31, 2014, three donors accounted for 96% of the grants receivable balance.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2015 and 2014

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 1.54% in 2015.

Grants receivable consist of the following as of August 31:

	<u>2015</u>	<u>2014</u>
One year or less	\$ 310,000	\$ 130,600
One to five years	<u>660,000</u>	<u>          </u>
	970,000	130,600
Less discount on grants receivable	<u>37,386</u>	<u>          </u>
	<u>\$ 932,614</u>	<u>\$ 130,600</u>

4. Furniture, equipment and leasehold improvements

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

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 11,916	\$ 11,916
Computer equipment	46,690	35,060
Furniture and fixtures	<u>4,399</u>	<u>4,399</u>
	63,005	51,375
Less accumulated depreciation	<u>47,801</u>	<u>34,103</u>
	<u>\$ 15,204</u>	<u>\$ 17,272</u>

Depreciation expense was \$13,698 and \$16,538 in 2015 and 2014, 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 during the year ended August 31, 2014.

The Organization returned the unspent grant funds to the donor during the year ended August 31, 2015 and fulfilled their obligation as per the grant agreement.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2015 and 2014

6. Commitments and contingencies

Leases

In 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 27, 2015.

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.

SFER entered into a six month lease agreement for its administrative offices commencing on October 1, 2014. This agreement was recently extended with another six month lease running through January 31, 2016. SFER will pay rent of \$8,425 per month.

Minimum annual rental payments required are as follows:

Year ending August 31:	
2016	\$ 53,264
	<u>\$ 53,264</u>

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

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

	<u>2015</u>	<u>2014</u>
State Initiatives Program	\$ 218,101	\$ 38,594
Time restriction	<u>852,614</u>	<u>50,000</u>
	<u>\$ 1,070,715</u>	<u>\$ 88,594</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, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
State Initiatives Program	\$ 608,493	\$ 1,506,713
Time restriction	<u>50,000</u>	<u>346,902</u>
	<u>\$ 658,493</u>	<u>\$ 1,853,615</u>

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2015 and 2014

8. Related party transactions

On June 1, 2013, SFER Action Network, Inc. and SFER 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 \$100,896 and \$92,355 were collected from SFER Action Network, Inc. during the fiscal years ended August 31, 2015 and 2014, 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 to SFER Action Network, Inc. as of August 31, 2014. SFER did not make a grant in relation to these services during the fiscal year ended August 31, 2015.

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 \$210,000 and \$195,000 to SFER Action Network, Inc. during the years ended August 31, 2015 and 2014, respectively.

As of August 31, 2015, the Organization owes \$149,732 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.

9. Subsequent events

Subsequent events have been evaluated through December 16, 2015, which is the date the financial statements were available to be issued.