



***FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITORS' REPORT
YEARS ENDED AUGUST 31, 2016 AND 2015***

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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, 2016 and 2015, 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, 2016 and 2015, 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

January 11, 2017

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

| | August 31, | |
|--|---------------------|---------------------|
| | <u>2016</u> | <u>2015</u> |
| Assets: | | |
| Cash and cash equivalents | \$ 1,088,915 | \$ 1,080,462 |
| Grants receivable, net | 1,451,669 | 932,614 |
| Other receivables | 1,908 | 11,894 |
| Prepaid expenses and other assets | 46,029 | 41,593 |
| Security deposit | 22,415 | 77,825 |
| Furniture, equipment and leasehold improvements, net | <u>5,467</u> | <u>15,204</u> |
| Total assets | <u>\$ 2,616,403</u> | <u>\$ 2,159,592</u> |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------------|---------------------|---------------------|
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 131,658 | \$ 164,820 |
| Due to SFER Action Network | <u>8,020</u> | <u>149,732</u> |
| Total liabilities | <u>139,678</u> | <u>314,552</u> |
| Net assets: | | |
| Unrestricted | 715,404 | 774,325 |
| Temporarily restricted | <u>1,761,321</u> | <u>1,070,715</u> |
| Total net assets | <u>2,476,725</u> | <u>1,845,040</u> |
| Total liabilities and net assets | <u>\$ 2,616,403</u> | <u>\$ 2,159,592</u> |

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

STUDENTS FOR EDUCATION REFORM, INC.

STATEMENTS OF ACTIVITIES

| | Year ended August 31, 2016 | | Year ended August 31, 2015 | |
|---------------------------------------|----------------------------|------------------------|----------------------------|------------------------|
| | Unrestricted | Temporarily restricted | Unrestricted | Temporarily restricted |
| Support: | | | | |
| Private support: | | | | |
| Contributions | \$ 1,651,840 | \$ 1,942,335 | \$ 2,169,771 | \$ 1,640,614 |
| In-kind donations | | | 16,667 | |
| Total private support | 1,651,840 | 1,942,335 | 2,186,438 | 1,640,614 |
| Revenues: | | | | |
| Administration fees | 106,058 | | 100,896 | 100,896 |
| Rental income | 11,000 | | 99,425 | 99,425 |
| Miscellaneous | 6,610 | | 9,201 | 9,201 |
| Partnership fees | 110,950 | | 35,095 | 35,095 |
| Total revenues | 234,618 | | 244,617 | 244,617 |
| Net assets released from restrictions | 1,251,729 | (1,251,729) | 658,493 | (658,493) |
| Total private support and revenues | 3,138,187 | 690,606 | 3,089,548 | 982,121 |
| Expenses: | | | | |
| Program services: | | | | |
| Training and leadership development | 1,298,800 | | 1,359,173 | 1,359,173 |
| State initiatives | 1,331,673 | | 965,775 | 965,775 |
| Total program services | 2,630,473 | | 2,324,948 | 2,324,948 |
| Support services: | | | | |
| Fundraising | 260,255 | | 171,412 | 171,412 |
| Management and general | 306,380 | | 371,858 | 371,858 |
| Total support services | 566,635 | | 543,270 | 543,270 |
| Total expenses | 3,197,108 | | 2,868,218 | 2,868,218 |
| Change in net assets | (58,921) | 690,606 | 221,330 | 982,121 |
| Net assets, beginning of year | 774,325 | 1,070,715 | 552,995 | 88,594 |
| Net assets, end of year | \$ 715,404 | \$ 1,761,321 | \$ 774,325 | \$ 1,070,715 |

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>2016</u> | <u>2015</u> |
| Cash flows from operating activities: | | |
| Change in net assets | \$ 631,685 | \$ 1,203,451 |
| Adjustments to reconcile change in net assets to net cash provided (used) by operating activities: | | |
| Depreciation | 7,484 | 13,698 |
| Disposal of equipment | 2,253 | |
| Discount on contributions receivable | 38,331 | 37,386 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in: | | |
| Grants receivable | (557,386) | (839,400) |
| Other receivables | 9,986 | (10,016) |
| Prepaid expenses and other assets | (4,436) | (14,197) |
| Security deposit | 55,410 | (9,545) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | (33,162) | 25,040 |
| Due to SFER Action Network | (141,712) | 55,625 |
| Due to funder | | (256,804) |
| Net cash provided by operating activities | <u>8,453</u> | <u>205,238</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 in cash and cash equivalents | 8,453 | 193,608 |
| Cash and cash equivalents, beginning of year | <u>1,080,462</u> | <u>886,854</u> |
| Cash and cash equivalents, end of year | <u>\$ 1,088,915</u> | <u>\$ 1,080,462</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, 2016 and 2015

| | Program services | | | | Support services | | | | Total program and supporting services | | | | | |
|-------------------------------------|-------------------------------------|--------------|-------------------|------------|------------------------|--------------|-------------|------------|---------------------------------------|------------|------------------------|------------|--------------|--------------|
| | Training and leadership development | | State initiatives | | Total program services | | Fundraising | | Management and general | | Total support services | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | | |
| Salaries | \$ 569,537 | \$ 371,861 | \$ 497,504 | \$ 278,288 | \$ 1,067,041 | \$ 650,149 | \$ 131,876 | \$ 77,780 | \$ 187,484 | \$ 210,339 | \$ 319,310 | \$ 288,119 | \$ 1,386,351 | \$ 938,288 |
| Payroll taxes and employee benefits | 123,822 | 78,424 | 139,239 | 59,582 | 263,061 | 138,006 | 34,415 | 17,300 | 54,977 | 72,235 | 89,392 | 89,535 | 352,453 | 227,541 |
| Total salaries and related expenses | 693,359 | 450,285 | 636,743 | 337,870 | 1,330,102 | 788,155 | 166,291 | 95,080 | 242,411 | 282,574 | 408,702 | 377,654 | 1,738,804 | 1,165,809 |
| Travel and meetings | 336,329 | 342,807 | 130,993 | 163,393 | 467,322 | 506,200 | 15,473 | 28,801 | 16,590 | 34,478 | 32,063 | 63,279 | 499,385 | 569,479 |
| Communications and development | 45,886 | 58,746 | 97,566 | 128,978 | 143,452 | 187,724 | 176 | 176 | 772 | 580 | 772 | 756 | 144,224 | 188,480 |
| Professional fees | 86,443 | 180,380 | 261,053 | 159,004 | 347,496 | 339,384 | 47,557 | 17,750 | 6,789 | 13,455 | 54,346 | 31,205 | 401,842 | 370,589 |
| Filing and registration fees | | | 920 | 722 | 920 | 722 | | | 1,343 | 1,297 | 1,343 | 1,297 | 2,263 | 2,019 |
| Occupancy | 54,216 | 88,791 | 92,188 | 96,929 | 146,404 | 185,720 | 20,758 | 22,515 | 29,407 | 29,270 | 50,165 | 51,785 | 196,569 | 237,505 |
| Student stipends and awards | 3,750 | 2,450 | 77,273 | 31,050 | 81,023 | 33,500 | | | | | | | 81,023 | 33,500 |
| Grants to SFER Action Network | 50,844 | 210,000 | | | 50,844 | 210,000 | | | | | | | 50,844 | 210,000 |
| Staff development | 6,358 | 2,400 | 113 | 175 | 6,471 | 2,575 | 3,000 | 2,775 | 2,960 | 1,986 | 3,050 | 2,384 | 9,521 | 4,959 |
| Other office expenses | 1,396 | 2,143 | 6,183 | 15,454 | 7,579 | 17,597 | 2,399 | 2,775 | 540 | 275 | 5,359 | 4,761 | 12,938 | 22,358 |
| Bank fees | 39 | 39 | 39 | 39 | 78 | 39 | 224 | | | | 764 | 275 | 842 | 314 |
| Office supplies | 2,718 | 2,942 | 5,307 | 9,320 | 8,025 | 12,262 | 563 | 590 | 563 | 766 | 1,126 | 1,356 | 9,151 | 13,618 |
| Telephone and telecommunications | 8,408 | 10,090 | 13,346 | 11,350 | 21,754 | 21,440 | 1,870 | 1,596 | 1,630 | 2,074 | 3,500 | 3,670 | 25,254 | 25,110 |
| Postage and delivery | 1,258 | 1,004 | 2,538 | 1,971 | 3,796 | 2,975 | 23 | 179 | 761 | 233 | 784 | 412 | 4,580 | 3,387 |
| Printing and copying | 3,681 | 117 | 3,178 | 2,777 | 6,859 | 2,894 | 409 | 163 | 409 | 161 | 818 | 321 | 7,677 | 3,218 |
| Insurance | 1,252 | 1,639 | 2,325 | 1,575 | 3,577 | 3,214 | 565 | 417 | 565 | 544 | 1,130 | 961 | 4,707 | 4,175 |
| Depreciation | 2,863 | 5,379 | 1,908 | 5,168 | 4,771 | 10,547 | 1,123 | 1,370 | 1,590 | 1,781 | 2,713 | 3,151 | 7,484 | 13,698 |
| | \$ 1,298,800 | \$ 1,359,173 | \$ 1,331,673 | \$ 965,775 | \$ 2,630,473 | \$ 2,324,948 | \$ 260,255 | \$ 171,412 | \$ 306,380 | \$ 371,858 | \$ 566,635 | \$ 543,270 | \$ 3,197,108 | \$ 2,868,218 |

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

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

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, 2016 and 2015.

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, 2016 and 2015

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, 2016 and 2015.

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 |

Donations of furniture, equipment, and leasehold improvements are recorded as contributions at the fair value of the asset, based on values of comparable assets, at the date of the gift. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire furniture, equipment, and leasehold improvements are reported as temporarily restricted contributions.

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.

Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 presentation.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

1. Summary of significant accounting policies (continued)

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 \$110,950 and \$35,095 in 2016 and 2015, 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 in 2015. There were no donated goods or services during the fiscal year ended August 31, 2016.

Donated securities

Donated securities are recorded at fair market value at the date of donation. Donated securities are promptly sold by SFER and the proceeds of the sale of those securities are recognized in the statement of activities as contribution income.

Uncertain tax positions

As of August 31, 2016, 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. U.S. federal and state income tax returns prior to fiscal year 2012 are closed.

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, 2016, two donors accounted for approximately 45% of total contributions, of which the largest donor represented 31% of total contributions. 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.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

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 1.19% and 1.54% in 2016 and 2015, respectively.

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

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|---------------------|-------------------|
| One year or less | \$ 820,000 | \$ 310,000 |
| One to five years | <u>670,000</u> | <u>660,000</u> |
| | 1,490,000 | 970,000 |
| Less discount on grants receivable | <u>38,331</u> | <u>37,386</u> |
| | <u>\$ 1,451,669</u> | <u>\$ 932,614</u> |

4. Furniture, equipment and leasehold improvements

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

| | <u>2016</u> | <u>2015</u> |
|-------------------------------|-------------------|------------------|
| Leasehold improvements | \$ | \$ 11,916 |
| Computer equipment | 37,279 | 46,690 |
| Furniture and fixtures | <u> </u> | <u>4,399</u> |
| | 37,279 | 63,005 |
| Less accumulated depreciation | <u>31,812</u> | <u>47,801</u> |
| | <u>\$ 5,467</u> | <u>\$ 15,204</u> |

Depreciation expense was \$7,484 and \$13,698 in 2016 and 2015, respectively.

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

5. Commitments and contingencies

SFER entered into a six month lease agreement for its administrative offices in New York commencing on October 1, 2014. This agreement has since been renewed every six months. Under the most recent lease renewal, SFER will pay rent of \$8,875 per month and this agreement will expire on January 31, 2017.

In addition, SFER entered into a lease agreement for a Minnesota office commencing November 2015. Under this lease agreement, SFER will pay rent of \$3,093 per month through December 2016.

Minimum annual rental payments required are as follows:

| | |
|------------------------|------------------|
| Year ending August 31: | |
| 2017 | <u>\$ 56,745</u> |

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

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

| | <u>2016</u> | <u>2015</u> |
|---------------------------|---------------------|---------------------|
| State Initiatives Program | \$ 387,804 | \$ 138,101 |
| Time restriction | <u>1,373,517</u> | <u>932,614</u> |
| | <u>\$ 1,761,321</u> | <u>\$ 1,070,715</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, 2016 and 2015 were as follows:

| | <u>2016</u> | <u>2015</u> |
|---------------------------|---------------------|-------------------|
| State Initiatives Program | \$ 1,222,632 | \$ 608,493 |
| Time restriction | <u>29,097</u> | <u>50,000</u> |
| | <u>\$ 1,251,729</u> | <u>\$ 658,493</u> |

STUDENTS FOR EDUCATION REFORM, INC.

NOTES TO FINANCIAL STATEMENTS

August 31, 2016 and 2015

7. 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 \$106,058 and \$100,896 were collected from SFER Action Network during the fiscal year ended August 31, 2016 and 2015, 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 \$50,844 and \$210,000 to SFER Action Network during the years ended August 31, 2016 and 2015, respectively.

During the year ended August 31, 2016, SFER collected \$32,207 from SFER Action Network to support various student trainings hosted by SFER.

As of August 31, 2016, the Organization owes \$8,020 for expenses paid or advances made on behalf of SFER by SFER Action Network. These amounts are settled in the ordinary course of business.

8. Subsequent events

Subsequent events have been evaluated through January 11, 2017, which is the date the financial statements were available to be issued.