

STAND FOR CHILDREN
LEADERSHIP CENTER

Audited Financial Statements
For the Year Ended August 31, 2016



MCDONALD JACOBS



Shareholders

MARK A. CLIFT, CPA
KARIN S. WANDTKE, CPA
SANG AHN, CPA
GERARD DEBLOIS JR., CPA
MARY STRASDIN, CPA
ANTHONY ALMER, CPA
TYEE CARR, CPA

Principals

JAKE JACOBS, CPA
SUSAN J. MARKS, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Stand for Children Leadership Center

We have audited the accompanying financial statements of Stand for Children Leadership Center (a nonprofit corporation), which comprise the statement of financial position as of August 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 auditor's 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 organization'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 organization'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 Stand for Children Leadership Center as of August 31, 2016, and changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McDonald Jacobson, P.C.

Portland, Oregon
December 15, 2016

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF FINANCIAL POSITION
August 31, 2016

ASSETS

Cash and cash equivalents	\$ 14,085,792
Certificates of deposit	1,167,753
Pledges receivable, net	1,556,250
Accounts receivable and other assets	17,923
Prepaid expenses and deposits	286,503
Furniture and equipment, net	9,315
Due from Stand for Children, Inc.	<u>295,584</u>
 TOTAL ASSETS	 <u><u>\$ 17,419,120</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 218,166
Accrued payroll liabilities	1,036,895
Deferred revenue	<u>186,350</u>
Total liabilities	<u>1,441,411</u>
 Net assets:	
Unrestricted:	
Undesignated	8,586,411
Board designated operating reserve	<u>2,137,918</u>
Total unrestricted	10,724,329
Temporarily restricted	<u>5,253,380</u>
Total net assets	<u>15,977,709</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 17,419,120</u></u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF ACTIVITIES
For the year ended August 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Grants and contributions	\$ 5,193,511	\$ 11,280,757	\$ 16,474,268
Other income	472,033	-	472,033
Net assets released from restrictions:			
Purpose restrictions	<u>11,185,799</u>	<u>(11,185,799)</u>	<u>-</u>
Total support and revenue	<u>16,851,343</u>	<u>94,958</u>	<u>16,946,301</u>
Expenses:			
Program	9,927,207	-	9,927,207
Management and general	3,650,714	-	3,650,714
Fundraising	<u>780,942</u>	<u>-</u>	<u>780,942</u>
Total expenses	<u>14,358,863</u>	<u>-</u>	<u>14,358,863</u>
 Change in net assets	 2,492,480	 94,958	 2,587,438
Net assets:			
Beginning of year	<u>8,231,849</u>	<u>5,158,422</u>	<u>13,390,271</u>
 End of year	 <u>\$ 10,724,329</u>	 <u>\$ 5,253,380</u>	 <u>\$ 15,977,709</u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended August 31, 2016

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 7,217,061	\$ 2,892,924	\$ 625,827	\$ 10,735,812
Consultants and professional services	829,124	136,571	57,054	1,022,749
Other services	513,881	37,209	72,266	623,356
Occupancy, equipment and insurance	564,060	196,655	-	760,715
Travel	291,570	76,718	14,073	382,361
Supplies and postage	65,299	39,940	1,671	106,910
Telephone, web hosting and information technology	380,697	192,131	4,175	577,003
Recruitment and staff development	14,213	40,591	1,067	55,871
Grants to others	20,558	-	-	20,558
Other expenses	<u>30,744</u>	<u>37,975</u>	<u>4,809</u>	<u>73,528</u>
 Total expenses	 <u>\$ 9,927,207</u>	 <u>\$ 3,650,714</u>	 <u>\$ 780,942</u>	 <u>\$ 14,358,863</u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF CASH FLOWS
For the year ended August 31, 2016

Cash flows from operating activities:	
Cash received from grantors, donors and others	\$ 19,303,170
Cash paid to suppliers and employees	<u>(14,420,663)</u>
Net cash provided by operating activities	<u>4,882,507</u>
Cash flows from investing activities:	
Net purchase of certificates of deposit	<u>(1,167,753)</u>
Net cash used in investing activities	<u>(1,167,753)</u>
Net increase in cash and cash equivalents	3,714,754
Cash and cash equivalents - beginning of year	<u>10,371,038</u>
Cash and cash equivalents - end of year	<u><u>\$ 14,085,792</u></u>
Reconciliation of change in net assets to net cash used in operating activities:	
Change in net assets	\$ 2,587,438
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	36,489
(Increase) decrease in:	
Pledges receivable	2,218,141
Other receivables	41,478
Prepaid expenses and deposits	(77,731)
Due from Stand for Children, Inc.	(191,256)
Increase in:	
Accounts payable and accrued expenses	8,979
Accrued payroll liabilities	161,719
Deferred revenue	<u>97,250</u>
Net cash provided by operating activities	<u><u>\$ 4,882,507</u></u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS
August 31, 2016

I. ORGANIZATION

On June 1, 1996, more than 300,000 people gathered in Washington, D.C. to attend the first Stand for Children Day, the largest rally for children in American history. Stand for Children Leadership Center (the Organization), a private nonprofit organization incorporated in the District of Columbia in 1996 (at the time under the name of National Day of Commitment for Children), was established to organize the event and build on the momentum generated from it.

Stand for Children Leadership Center teaches everyday citizens to be community leaders on children's issues. Its mission is to develop citizen leaders who use the power of grassroots action to help all children get the excellent public education and strong support they need to thrive. In January 1999, Stand for Children, Inc., a grassroots membership nonprofit organization that advocates for programs that give children a fair chance in life, was formed. Governing control of these organizations is now independent, and operating agreements define their administrative and operational relationship. These financial statements present the accounts of Stand for Children Leadership Center. The Organization's primary sources of funding are grants and contributions from foundations, corporations, and the general public.

The Organization is building a diverse grassroots constituency that is strong and effective enough to give all children a fair chance in life. Its achievements for children are the result of enabling parents, teachers and other concerned community members, through a formalized system of leadership training and mentoring, carried out by skilled organizing staff, to work together to make a real, lasting difference for our most vulnerable, precious citizens – our children.

Among the benefits the Organization provides to children are advocacy and educational efforts to support quality early education, teaching excellence, school leadership, reading by 4th grade, college and career readiness, quality schools for all children, and adequate and wisely spent school funding. While the Organization supports children's needs throughout the United States, the Organization focuses its efforts in strategically selected states. During 2016, the Organization had staff in Arizona, Colorado, Illinois, Indiana, Louisiana, Massachusetts, Oklahoma, Oregon, Tennessee, Texas and Washington.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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.

Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as unrestricted or restricted net assets. Unrestricted net assets are those that are not subject to donor-imposed stipulations. Temporarily restricted net assets are subject to donor-imposed stipulations that will be met, either by actions of the Organization and/or the passage of time.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments available for current use with maturities of three months or less at the time of purchase to be cash equivalents.

Pledges Receivable

Contributions, which include unconditional promises to give (pledges), are recognized as revenues in the year the Organization is notified of the commitment. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Pledges receivable are reported at the amount management expects to collect on balances outstanding at period-end. Based on an assessment of the collection history with those having outstanding balances and current relationships with the donors, management has concluded that any uncollectible pledges will be immaterial. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using estimated market interest rates. Amortization of the discount is included in contribution support.

Accounts Receivable

Accounts receivable are reported at the amount management expects to collect on balances outstanding at year-end. Based on an assessment of the credit history with those having outstanding balances and current relationships with them, management has concluded that realization losses on balances outstanding at year-end will be immaterial.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Furniture and Equipment

Acquisitions of furniture and equipment in excess of \$5,000 are capitalized. Property and equipment purchased are recorded at cost. Donated assets are reflected as contributions at their estimated values on the date received.

Depreciation

Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets which range from 3 to 5 years.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Assets and Services

Donations of property, equipment, materials and other assets are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose.

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

The Organization regularly receives contributed services from a large number of volunteers who assist in the Organization's efforts and activities. No amounts have been recorded in the financial statements as the services do not meet the criteria.

Expense Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *Continued*

Advertising

The Organization expenses advertising costs as these are incurred. Advertising expense totaled approximately \$115,300 for the year ended August 31, 2016.

Income Tax Status

Stand for Children Leadership Center is a nonprofit corporation exempt from income tax under section 501(c)(3) of the Internal Revenue Code and comparable state law. No provision for income taxes is made in the accompanying financial statements, as the Organization has no activities subject to unrelated business income tax. The Organization is not a private foundation.

The Organization follows the provisions of FASB ASC *Topic Accounting for Uncertainty in Income Taxes*. Management has evaluated the Organization's tax positions and concluded that there are no uncertain tax positions that require adjustment to the financial statements to comply with provisions of this Topic.

The Organization's information returns for years ended December 31, 2012 and prior are generally no longer subject to examination by taxing authorities in its major tax jurisdictions.

Use of Estimates

The preparation of financial statements in conformity 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Organization has evaluated all subsequent events through December 15, 2016, the date the financial statements were available to be issued.

3. CERTIFICATES OF DEPOSIT

At August 31, 2016, the Organization has certificates of deposit with original maturities of six-months, maturing on September 1, 2016 with interest at .4%.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

4. PLEDGES RECEIVABLE

Pledges receivable are unsecured and represent unconditional promises to give as follows at August 31, 2016:

Receivable within one year	\$ 1,064,250
Receivable within two to five years	<u>512,500</u>
Total pledges receivable	1,576,750
Less discount for long-term pledges	<u>20,500</u>
Pledges receivable, net	<u>\$ 1,556,250</u>

Unconditional promises to give and grants receivable due in more than one year are reflected at the present value of estimated cash flows using a discount rate of 4.0%.

As of August 31, 2016, the Organization has received pledges contingent on the Organization meeting specific program or matching requirements. Provided the conditions are met, annual installments are as follows:

Within one year	\$ 5,185,000
Within two to five years	<u>1,675,000</u>
Total contingent grants	<u>\$ 6,860,000</u>

Contingent pledges are not recorded as contributions revenue until the donor conditions are satisfied.

5. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at August 31, 2016:

Office and computer equipment	\$ 428,553
Leasehold improvements	165,067
Computer software	<u>7,890</u>
Total furniture and equipment	601,510
Less accumulated depreciation and amortization	<u>592,195</u>
Furniture and equipment, net	<u>\$ 9,315</u>

Depreciation and amortization totaled \$36,489 for the year ended August 31, 2016.

STAND FOR CHILDREN LEADERSHIP CENTER
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 August 31, 2016

6. LINE OF CREDIT

The Organization has a \$500,000 line of credit with a financial institution. Amounts available for borrowing are reduced by an outstanding letter of credit of \$26,469 (see Note 8). Interest payments are due monthly on the outstanding balance at a floating rate equal to 1.5% over the bank prime rate or the floor rate of 5.0%, whichever is greater (5.0% as of August 31, 2016). The line of credit is secured by all receivables, deposit accounts, and equipment of the Organization. The line matures March 2017. There were no advances on the line at August 31, 2016.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at August 31, 2016:

Purpose restricted:	
State operations	\$ 3,929,672
Common Core	502,121
Scholarships	142,276
Other purpose restricted	<u>679,311</u>
Total temporarily restricted net assets	<u>\$ 5,253,380</u>

8. LEASE COMMITMENTS

The Organization leases its office facilities in all states where it conducts business, and certain office equipment under various operating leases that expire through May 2021. In addition, certain offices are leased on a month-to-month basis. The Organization subleased portions of various offices under non-cancelable agreements through June 2016.

Future minimum lease commitments under operating leases are as follows:

Year ending August 31, 2017	\$ 481,100
2018	315,900
2019	198,700
2020	125,300
2021	<u>97,700</u>
Total	<u>\$ 1,218,700</u>

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

8. LEASE COMMITMENTS, Continued

An irrevocable letter of credit of \$26,469 was accepted as a security deposit by one of the Organization's landlords.

Rent expense totaled approximately \$526,400, and equipment lease expense totaled approximately \$109,600, for the year ended August 31, 2016. Rental income under subleases totaled approximately \$32,500 in 2016.

9. TRANSACTIONS WITH AFFILIATED ORGANIZATION

Under a resource sharing agreement between the Organization and Stand for Children, Inc., the Organization is reimbursed by Stand for Children, Inc. for general and administrative costs on the basis of the proportion of staff hours spent on Stand for Children, Inc. activities. During the year ended August 31, 2016, general and administrative cost share charges reimbursed by Stand for Children, Inc. under this agreement consisted of the following:

Consultants, accounting and legal	\$ 7,430
Recruitment and staff development	36,471
Occupancy, equipment and insurance	109,492
Printing, supplies and postage	13,712
Telephone, web hosting and information technology	96,791
Other	<u>9,421</u>
	<u>\$ 273,317</u>

In addition, the Organization is reimbursed by Stand for Children, Inc. for direct costs (primarily personnel) advanced. Total reimbursements from Stand for Children, Inc. under the direct cost reimbursement arrangements approximated \$2,312,900 during the year ended August 31, 2016.

Under a lobbying grant agreement between the Organization and Stand for Children, Inc., the Organization provides funds to Stand for Children, Inc. in support of direct and grass roots lobbying conducted by Stand for Children, Inc. on issues of mutual concern to both organizations. Amounts paid by the Organization to Stand for Children, Inc., for lobbying activities pursuant to this agreement approximated \$20,600 during the year ended August 31, 2016.

As of August 31, 2016, advances and other amounts due from Stand for Children, Inc. approximated \$295,600 under the operating agreements described above.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2016

10. RETIREMENT PLAN

The Organization has established a defined contribution 401(k) retirement plan (the plan) covering substantially all regular employees with six months of service. Employer contributions are limited to a 4% match of employee elective contributions. Employees are fully vested upon entering the plan. Retirement expense for the year ended August 31, 2016, totaled approximately \$269,200. In addition, for the year ended August 31, 2016, approximately \$57,600 in pension expense was incurred by and reimbursed to the Organization under the direct cost reimbursement arrangements between the Organization and Stand for Children, Inc.

11. CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances in two financial institutions. Balances in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The balances, at times, may exceed the federally insured limit. Balances in excess of insured limits were approximately \$14,800,000 as of August 31, 2016.

The Organization's revenues are concentrated with 21% of total revenues coming from two foundations for the year ended August 31, 2016. The Organization's credit risk for pledges receivable is concentrated with 75% of the balances coming from two donors for the year ended August 31, 2016.