

STAND FOR CHILDREN
LEADERSHIP CENTER

Audited Financial Statements
For the Year Ended August 31, 2018



MCDONALD JACOBS

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, 2018, 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, 2018, and changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Stand for Children Leadership Center's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended August 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

McDonald Jacoby, P.C.

Portland, Oregon
January 11, 2019

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF FINANCIAL POSITION
August 31, 2018
(With comparative totals for 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 11,836,725	\$ 16,055,048
Pledges receivable, net	673,400	3,794,900
Accounts receivable and other assets	35,169	1,538
Investments	7,738,845	-
Prepaid expenses and deposits	264,897	234,973
Property and equipment, net	39,169	48,646
Due from Stand for Children, Inc.	107,755	74,109
 TOTAL ASSETS	 \$ 20,695,960	 \$ 20,209,214
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 371,622	\$ 296,408
Accrued payroll and related liabilities	867,037	606,057
Deferred revenue	47,000	33,000
Total liabilities	1,285,659	935,465
Net assets:		
Unrestricted:		
Undesignated	11,144,560	9,742,092
Board designated operating reserve	2,876,000	2,601,322
Total unrestricted	14,020,560	12,343,414
Temporarily restricted	5,389,741	6,930,335
Total net assets	19,410,301	19,273,749
 TOTAL LIABILITIES AND NET ASSETS	 \$ 20,695,960	 \$ 20,209,214

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF ACTIVITIES
For the year ended August 31, 2018
(With comparative totals for 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Grants and contributions	\$ 7,063,412	\$ 9,816,251	\$ 16,879,663	\$ 18,420,363
Other income	509,925	686	510,611	483,609
Net assets released from restrictions:				
Purpose restrictions	<u>11,357,531</u>	<u>(11,357,531)</u>	-	-
Total support and revenue	<u>18,930,868</u>	<u>(1,540,594)</u>	<u>17,390,274</u>	<u>18,903,972</u>
Expenses:				
Program	12,427,612	-	12,427,612	11,119,126
Management and general	3,783,222	-	3,783,222	3,557,507
Fundraising	<u>1,042,888</u>	-	<u>1,042,888</u>	<u>931,299</u>
Total expenses	<u>17,253,722</u>	-	<u>17,253,722</u>	<u>15,607,932</u>
Change in net assets	1,677,146	(1,540,594)	136,552	3,296,040
Net assets:				
Beginning of year	<u>12,343,414</u>	<u>6,930,335</u>	<u>19,273,749</u>	<u>15,977,709</u>
End of year	<u>\$ 14,020,560</u>	<u>\$ 5,389,741</u>	<u>\$ 19,410,301</u>	<u>\$ 19,273,749</u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended August 31, 2018
(With comparative totals for 2017)

	2018				2017 Total
	Program	Management and General	Fundraising	Total	
Salaries, payroll taxes and benefits	\$ 8,291,803	\$ 3,036,816	\$ 917,572	\$ 12,246,191	\$ 11,033,554
Consultants and professional services	2,014,740	170,819	5,600	2,191,159	1,472,565
Other services	803,810	13,637	64,806	882,253	1,016,457
Occupancy, equipment and insurance	436,018	167,111	-	603,129	661,544
Travel	421,533	112,450	24,912	558,895	440,680
Supplies and postage	47,260	17,084	1,480	65,824	121,358
Telephone, web hosting and information technology	322,095	203,585	17,712	543,392	583,495
Recruitment and staff development	22,729	47,246	1,641	71,616	189,044
Grants to others	40,291	-	-	40,291	35,182
Other expenses	27,333	14,474	9,165	50,972	54,053
 Total expenses	 <u>\$ 12,427,612</u>	 <u>\$ 3,783,222</u>	 <u>\$ 1,042,888</u>	 <u>\$ 17,253,722</u>	 <u>\$ 15,607,932</u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
STATEMENT OF CASH FLOWS
For the year ended August 31, 2018
(With comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received from grantors, donors and others	\$ 20,536,617	16,528,357
Cash paid to suppliers and employees	<u>(16,964,721)</u>	<u>(15,666,854)</u>
Net cash provided by operating activities	<u>3,571,896</u>	<u>861,503</u>
Cash flows from investing activities:		
Purchase of property and equipment	(6,900)	(60,000)
Net proceeds from certificates of deposit	-	1,167,753
Purchase of investments	<u>(7,783,319)</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>(7,790,219)</u>	<u>1,107,753</u>
Net increase (decrease) in cash and cash equivalents	(4,218,323)	1,969,256
Cash and cash equivalents - beginning of year	<u>16,055,048</u>	<u>14,085,792</u>
Cash and cash equivalents - end of year	<u>\$ 11,836,725</u>	<u>16,055,048</u>
Reconciliation of change in net assets to net cash used in operating activities:		
Change in net assets	\$ 136,552	3,296,040
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	16,377	20,669
Change in value of investments	44,474	-
(Increase) decrease in:		
Pledges receivable	3,121,500	(2,238,650)
Accounts receivable and other assets	(33,631)	16,385
Prepaid expenses and deposits	(29,924)	51,530
Due from Stand for Children, Inc.	(33,646)	221,475
Increase (decrease) in:		
Accounts payable and accrued expenses	75,214	78,242
Accrued payroll and related liabilities	260,980	(430,838)
Deferred revenue	<u>14,000</u>	<u>(153,350)</u>
Net cash provided by operating activities	<u>\$ 3,571,896</u>	<u>861,503</u>

See notes to financial statements.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS
August 31, 2018

1. ORGANIZATION

On June 1, 1996, more than 300,000 people gathered in Washington, DC 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 gathered from the rally.

The Organization is an education advocacy organization focused on ensuring all students receive a high quality, relevant education, especially those whose boundless potential is overlooked and under-tapped because of their skin color, zip code, first language, or disability.

The Organization advocates mainly at the state and local level for proven policies and funding, primarily focused on helping students reach make-or-break milestones of reading well by the end of third grade and graduating high school ready for college, career training, or career.

Through its work, the Organization ensures the changes fought for reach classrooms and directly support students. The Organization partners with parents to support their children's education journey and to become a strong advocate.

While the Organization supports children's needs throughout the United States, the Organization focuses its efforts in strategically selected states. During 2018, the Organization had staff in Arizona, Colorado, Illinois, Indiana, Louisiana, Massachusetts, Oklahoma, Oregon, Tennessee, and Washington.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

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, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Investments

Investments are carried at fair value.

Property and Equipment

Acquisitions of property 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, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Advertising

The Organization expenses advertising costs as these are incurred. Advertising expense totaled approximately \$47,300 and \$73,500, respectively, for the years ended August 31, 2018 and 2017.

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.

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 January 11, 2019, the date the financial statements were available to be issued.

Summarized Financial Information for 2017

The financial information as of August 31, 2017 and for the year then ended is presented for comparative purposes and is not intended to be a complete financial statement presentation.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

3. PLEDGES RECEIVABLE

Pledges receivable are unsecured and represent unconditional promises to give as follows at August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Receivable within one year	\$ 606,200	\$ 3,642,500
Receivable within two to five years	<u>70,000</u>	<u>160,000</u>
Total pledges receivable	676,200	3,802,500
Less discount for long-term pledges	<u>2,800</u>	<u>7,600</u>
Pledges receivable, net	<u><u>\$ 673,400</u></u>	<u><u>\$ 3,794,900</u></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, 2018, the Organization has received pledges contingent on the Organization meeting specific program or matching requirements. Contingent pledges are not recorded as contributions revenue until the donor conditions are satisfied. Provided the conditions are met, annual installments are as follows:

Within one year	\$ 1,312,500
Within two to five years	<u>1,000,000</u>
Total contingent grants	<u><u>\$ 2,312,500</u></u>

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following at August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Office and computer equipment	\$ 315,997	\$ 309,098
Leasehold improvements	225,067	225,067
Computer software	<u>7,890</u>	<u>7,890</u>
Total property and equipment	548,954	542,055
Less accumulated depreciation and amortization	<u>509,785</u>	<u>493,409</u>
Property and equipment, net	<u><u>\$ 39,169</u></u>	<u><u>\$ 48,646</u></u>

Depreciation and amortization totaled \$16,377 and \$20,669, respectively, for the years ended August 31, 2018 and 2017.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

5. INVESTMENTS

Investments consist of the following at August 31, 2018.

Cash and money fund	\$ 1,566,506
Corporate bonds - publicly traded	6,172,339
Total investments	<u>\$ 7,738,845</u>

Investment income is included in other income and consists of:

Interest and dividends	\$ 89,764
Change in value of investments	(44,474)
Investment fees	(6,445)
Net investment income	<u>\$ 38,845</u>

6. LINE OF CREDIT

The Organization has a \$750,000 (\$500,000 in 2017) line of credit with a financial institution. Interest payments are due monthly on the outstanding balance at a variable rate, the greater of prime plus 1.5% or 5% (prime plus 1.5% was 6.5% as of August 31, 2018). The line of credit is secured by all receivables, deposit accounts, and equipment of the Organization. The line matures June 2019. There were no outstanding advances on the line at August 31, 2018 and 2017.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at August 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Purpose restricted:		
State operations	\$ 2,887,479	\$ 4,578,247
Common Core	-	260,894
Scholarships	120,872	153,363
Other purpose restricted	2,381,390	1,937,831
Total temporarily restricted net assets	<u>\$ 5,389,741</u>	<u>\$ 6,930,335</u>

STAND FOR CHILDREN LEADERSHIP CENTER
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 August 31, 2018

8. SELF-FUNDED HEALTH INSURANCE

During the year ended August 31, 2017, the Organization established self-funded employee health insurance. An estimated liability of approximately \$46,400 is recorded for claims incurred, including claims incurred but not yet reported as of August 31, 2018 (\$15,000 in 2017). The estimated liability for self-insurance is based on management's judgement, and assumptions and factors related to claims development history and the frequency and severity of claims.

The Organization limits its exposure and maintains insurance coverage with a third-party insurer to limit individual claims and total exposure under this program. For individual claims over \$50,000, the coverage is unlimited and total Organization's insurance policy covers claims over 125% of estimated annual claims. The ultimate settlement of health insurance claims may differ significantly from amounts accrued in the financial statements.

9. 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 July 2022. In addition, certain offices are leased on a month-to-month basis. The Organization subleased portions of various offices under non-cancelable agreements through September 2018.

Future minimum lease commitments under operating leases are as follows:

Year ending August 31, 2019	\$ 478,400
2020	402,900
2021	329,300
2022	<u>135,500</u>
Total	<u>\$ 1,346,100</u>

Rent expense totaled approximately \$437,000 and equipment lease expense totaled approximately \$75,900, for the year ended August 31, 2018. For the year ended August 31, 2017, rent expense totaled approximately \$494,400 and equipment lease totaled approximately \$74,300. Rental income under subleases totaled approximately \$5,500 in both 2018 and 2017.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

10. 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 direct costs (primarily personnel) advanced. Total reimbursements from Stand for Children, Inc. under the direct cost reimbursement arrangements approximated \$1,331,500 during the year ended August 31, 2018 and \$1,961,900 during the year ended August 31, 2017.

In addition, 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 years ended August 31, 2018 and 2017, general and administrative cost share charges reimbursed by Stand for Children, Inc. under this agreement consisted of the following:

	2018	2017
Consultants, accounting and legal	\$ 2,809	\$ 10,596
Other program expenses	10,441	31,696
Recruitment and staff development	59,230	17,878
Occupancy, equipment and insurance	5,178	69,906
Printing, supplies and postage	51,780	8,946
Telephone, web hosting and information technology	7,420	162,498
Other	4,890	1,632
	\$ 141,748	\$ 303,152

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 grassroots lobbying conducted by Stand for Children, Inc. on issues of mutual concern to both organizations. There were no amounts paid by the Organization to Stand for Children, Inc., for lobbying activities pursuant to this agreement during the years ended August 31, 2018 and 2017.

Advances and other amounts due from Stand for Children, Inc. approximated \$107,800, and \$74,100, respectively, as of August 31, 2018 and 2017 under the operating agreements described above.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

11. RETIREMENT PLAN

The Organization has established a defined contribution 401(k) retirement plan (the plan) covering substantially all regular employees, with employees becoming eligible to receive matching contributions after 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 contributions for the years ended August 31, 2018 and 2017, totaled approximately \$264,900 and \$282,400, respectively. In addition, for the years ended August 31, 2018 and 2017, approximately \$30,300 and \$45,600, respectively, in retirement contributions were incurred by and reimbursed to the Organization under the direct cost reimbursement arrangements between the Organization and Stand for Children, Inc.

12. 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 \$11,500,000 as of August 31, 2018 and approximately \$15,600,000 as of August 31, 2017.

The Organization's revenues are concentrated with 41% of total revenue coming from two foundations for the year ended August 31, 2018 and 13% of total revenue coming from one foundation for the year ended August 31, 2017. The Organization's credit risk for pledges receivable is concentrated with 61% of the balances coming from three donors for the year ended August 31, 2018 and 78% of the balances from two donors for the year ended August 31, 2017.

13. FAIR VALUE MEASUREMENTS

Assets and liabilities recorded at fair value in the statement of financial position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. The inputs are categorized by different levels as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets, or quoted market prices for identical assets or liabilities in inactive markets.

Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair values requires significant management judgment or estimation.

STAND FOR CHILDREN LEADERSHIP CENTER
NOTES TO FINANCIAL STATEMENTS, CONTINUED
August 31, 2018

13. FAIR VALUE MEASUREMENTS, Continued

Fair values of assets measured on a recurring basis at August 31, 2018 included corporate bonds which are publically traded and classified as level 2.

Fair values for corporate bonds, are determined by reference to quoted market prices and other relevant information generated by market transactions.