

**SOUTHERN EDUCATION FOUNDATION, INC.**

**FINANCIAL STATEMENTS**  
**and**  
**SUPPLEMENTARY INFORMATION**  
**YEARS ENDED DECEMBER 31, 2008 AND 2007**

**with**  
**INDEPENDENT AUDITORS' REPORT**

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## INDEPENDENT AUDITORS' REPORT

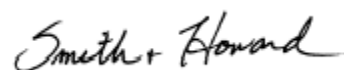
**The Board of Trustees  
Southern Education Foundation, Inc.**

We have audited the accompanying statement of financial position of Southern Education Foundation, Inc. (the "Foundation") as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southern Education Foundation, Inc. as of December 31, 2008 and 2007, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 14-15 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the audit procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



March 4, 2009

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2008 AND 2007**

**ASSETS**

	<u><b>2008</b></u>	<u><b>2007</b></u>
Cash and Cash Equivalents	\$ 840,348	\$ 8,424,973
Investment Securities (Note 3)	19,168,236	12,482,467
Grants Receivable (Note 2)	440,500	100,000
Pledges Receivable	-	15,700
Other Assets	14,216	18,079
Building, Furniture, and Fixtures, Net (Note 4)	<u>498,803</u>	<u>536,522</u>
	<u><u>\$ 20,962,103</u></u>	<u><u>\$ 21,577,741</u></u>

**LIABILITIES AND NET ASSETS**

Accounts Payable	\$ 132,183	\$ 36,258
Other Liabilities	<u>84,091</u>	<u>55,705</u>
Total Liabilities	<u>216,274</u>	<u>91,963</u>
Commitments (Note 6)		
Net Assets		
Unrestricted net assets		
Board-designated (Note 1)	8,000,000	8,000,000
Undesignated	<u>2,545,666</u>	<u>5,248,539</u>
	10,545,666	13,248,539
Temporarily restricted (Note 7)	10,187,763	8,224,839
Permanently restricted	<u>12,400</u>	<u>12,400</u>
	<u>20,745,829</u>	<u>21,485,778</u>
	<u><u>\$ 20,962,103</u></u>	<u><u>\$ 21,577,741</u></u>

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2008**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions	\$ 43,987	\$ -	\$ -	\$ 43,987
Grant revenue	-	4,101,400	-	4,101,400
Other revenue	443	-	-	443
Investment income	1,318,549	-	-	1,318,549
Net realized and unrealized losses	(3,409,180)	-	-	(3,409,180)
Net assets released from restrictions (Note 7)	<u>2,138,476</u>	<u>(2,138,476)</u>	<u>-</u>	<u>-</u>
 Total revenue, gains and other support	 <u>92,275</u>	 <u>1,962,924</u>	 <u>-</u>	 <u>2,055,199</u>
 Expenses:				
Program	2,148,873	-	-	2,148,873
Management and general	476,026	-	-	476,026
Fundraising	<u>170,249</u>	<u>-</u>	<u>-</u>	<u>170,249</u>
 Total expenses	 <u>2,795,148</u>	 <u>-</u>	 <u>-</u>	 <u>2,795,148</u>
 Increase (Decrease) in Net Assets	 (2,702,873)	 1,962,924	 -	 (739,949)
 Net Assets:				
Beginning of year	<u>13,248,539</u>	<u>8,224,839</u>	<u>12,400</u>	<u>21,485,778</u>
 End of year	 <u>\$ 10,545,666</u>	 <u>\$ 10,187,763</u>	 <u>\$ 12,400</u>	 <u>\$ 20,745,829</u>

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2007**

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Revenue, gains and other support:				
Contributions	\$ 68,093	\$ 3,000	\$ -	\$ 71,093
Grant revenue	-	5,027,000	-	5,027,000
Other revenue	14,303	-	-	14,303
Investment income	747,874	-	-	747,874
Net realized and unrealized gains	458,616	-	-	458,616
Net assets released from restrictions (Note 7)	<u>1,924,100</u>	<u>(1,924,100)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>3,212,986</u>	<u>3,105,900</u>	<u>-</u>	<u>6,318,886</u>
Expenses:				
Program	2,027,252	-	-	2,027,252
Management and general	314,500	-	-	314,500
Fundraising	<u>87,992</u>	<u>-</u>	<u>-</u>	<u>87,992</u>
Total expenses	<u>2,429,744</u>	<u>-</u>	<u>-</u>	<u>2,429,744</u>
Increase in Net Assets	783,242	3,105,900	-	3,889,142
Net Assets:				
Beginning of year	<u>12,465,297</u>	<u>5,118,939</u>	<u>12,400</u>	<u>17,596,636</u>
End of year	<u>\$ 13,248,539</u>	<u>\$ 8,224,839</u>	<u>\$ 12,400</u>	<u>\$ 21,485,778</u>

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2008 AND 2007**

	<u><b>2008</b></u>	<u><b>2007</b></u>
Cash flows from operating activities:		
Increase (Decrease) in Net Assets	\$ (739,949)	\$ 3,889,142
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	52,087	98,129
Net realized and unrealized (gains) losses	3,409,180	(458,616)
(Increase) decrease in grants receivable	(340,500)	25,000
(Increase) decrease in pledges receivable	15,700	(15,700)
Decrease in other assets	3,863	56,942
Increase in accounts payable	95,925	6,953
Increase (decrease) in other liabilities	<u>28,386</u>	<u>(42,235)</u>
Net cash provided by operating activities	<u>2,524,692</u>	<u>3,559,615</u>
Cash flows from investing activities:		
Purchase of furniture and fixtures	(14,368)	(5,722)
Proceeds from the sale of investment securities	593,187	1,147,573
Purchase of investment securities	<u>(10,688,136)</u>	<u>(1,685,646)</u>
Net cash required by investing activities	<u>(10,109,317)</u>	<u>(543,795)</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(7,584,625)	3,015,820
Cash and Cash Equivalents at Beginning of Year	<u>8,424,973</u>	<u>5,409,153</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 840,348</u></u>	<u><u>\$ 8,424,973</u></u>

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of Business

Southern Education Foundation, Inc. (the Foundation) is a public charity established to promote equity and quality in education, primarily for disadvantaged citizens in the South. The Foundation undertakes a wide range of strategies and programs to fulfill its objectives through research, analysis, advocacy, technical assistance and outreach.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

The Foundation's net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified as unrestricted, temporarily restricted or permanently restricted.

Unrestricted net assets include amounts, not subject to donor-imposed stipulations, used to account for resources which are available to fulfill the purposes of the Foundation in accordance with the limitations of its charter and bylaws. The principal sources of unrestricted funds are grants, contributions, bequests and investment income. The Foundation's governing board has designated \$8,000,000 for long-term investment as of December 31, 2008 and 2007.

Temporarily restricted net assets are those resources currently available for use but expendable only for purposes specified by the donor or grantor. Such resources originate from grants, contributions and investment income restricted for specific purposes. When a donor or grantor 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 are those resources subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specified purposes. At December 31, 2008 and 2007, permanently restricted net assets consisted of a contribution from the McMillan Fund.



**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investment Securities

Investment securities include both debt and equity securities. The fair value of investments in marketable equity and debt securities is based on quoted market prices. Realized gains and losses on sales of investments are computed using the specific-identification method. Unrealized gains and losses are calculated based on the securities' fair values, as determined by an active market as of December 31, 2008 and 2007.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of money market accounts and other short-term cash investments. The Foundation maintains cash deposits at a financial institution that may at times exceed the federally insured limit of \$250,000. For purposes of the statements of cash flows, the Foundation considers all short-term, interest-bearing deposits with original maturities of three months or less to be cash equivalents.

Building, Furniture, and Fixtures

The building consists of a condominium interest in an office building and is being depreciated on a straight-line basis over an estimated useful life of 30 years. Furniture and fixtures are being depreciated on a straight-line basis over estimated lives of five to ten years.

Functional Allocation of Expenses

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

Income Taxes

The Foundation is recognized as an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

**SOUTHERN EDUCATION FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2008 AND 2007**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Use of Estimates

Management of the Foundation has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**NOTE 2 – GRANTS RECEIVABLE**

Grants receivable consist of the following at December 31, 2008 and 2007:

	<u><b>2008</b></u>	<u><b>2007</b></u>
American Express	\$ 15,000	\$ -
Mott Foundation	203,000	-
Marguerite Casey Foundation	187,500	-
Ida Ryan Trust	10,000	-
Hewlett Foundation	25,000	-
Nellie Mae Foundation	-	50,000
United Way	-	50,000
	<u><u>\$ 440,500</u></u>	<u><u>\$ 100,000</u></u>

**NOTE 3 – INVESTMENT SECURITIES**

Investment securities at December 31, 2008 and 2007 consist of the following:

	<u><b>2008</b></u>		<u><b>2007</b></u>	
	<u><b>Fair Value</b></u>	<u><b>Cost</b></u>	<u><b>Fair Value</b></u>	<u><b>Cost</b></u>
Certificate of deposit	\$ 250,000	\$ 250,000	\$ -	\$ -
Domestic corporate bonds	6,340,809	6,536,772	310,418	250,964
Domestic equity securities	3,573,172	4,355,845	2,114,490	1,722,089
Federal agency bonds	1,811,914	2,342,328	3,625,688	2,931,256
Foreign bonds	70,074	90,587	111,751	90,347
Foreign equity securities	2,592,739	3,351,729	4,432,776	3,583,762
U.S. Government obligations	663,531	663,531	1,887,344	1,525,859
Short-term money market	3,865,997	4,246,958	-	-
	<u><u>\$19,168,236</u></u>	<u><u>\$21,837,750</u></u>	<u><u>\$12,482,467</u></u>	<u><u>\$10,104,277</u></u>

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 4 – BUILDING, FURNITURE, AND FIXTURES**

Building, furniture, and fixtures consist of the following at December 31, 2008 and 2007:

	<u><b>2008</b></u>	<u><b>2007</b></u>
Building	\$ 867,057	\$ 867,057
Furniture and fixtures	589,209	584,291
Building improvements	<u>295,041</u>	<u>285,591</u>
	1,751,307	1,736,939
Less accumulated depreciation	<u>1,252,504</u>	<u>1,200,417</u>
Total	<u><u>\$ 498,803</u></u>	<u><u>\$ 536,522</u></u>

Depreciation expense totaled \$52,087 and \$98,129 for the years ended December 31, 2008 and 2007, respectively.

**NOTE 5 – PENSION PLAN**

The Foundation has a defined contribution (money purchase) retirement plan covering substantially all employees. The plan provides for the Foundation to contribute 15% of the participant's regular base salary, which is used to purchase annuity contracts for participants. The annuity contracts are the property of each participant and retirement benefits are provided solely from such contracts. For the years ended December 31, 2008 and 2007, contributions to the plan totaled \$127,650 and \$109,041, respectively. The pension contributions have been allocated to the various expense classifications on the same basis as personnel costs.

**NOTE 6 – OPERATING LEASES**

The Foundation leases office equipment under various operating leases. At December 31, 2008, future minimum lease payments under noncancelable operating leases are as follows for years ending December 31:

2009	\$ 11,557
2010	10,781
2011	10,781
2012	10,781
2013	<u>4,492</u>
	<u><u>\$ 48,392</u></u>

Lease expense for each of the years ended December 31, 2008 and 2007 totaled \$12,641.

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2008 AND 2007**

**NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets totaling \$10,187,763 and \$8,224,839 at December 31, 2008 and 2007, respectively, are available to support the Foundation's various research, analysis, advocacy, technical assistance, and outreach programs.

Temporarily restricted net assets totaling \$2,138,476 and \$1,924,100 were released from restrictions during the years ended December 31, 2008 and 2007, respectively, by incurring expenses satisfying the restricted purposes specified by donors or grantors.

**NOTE 8 – CONCENTRATIONS**

The Foundation depends heavily on contributions and grants for its revenue. During the year ended December 31, 2008, the Foundation received approximately 66% of its grant revenue from one organization. The ability of certain of the Foundation's contributors and grantors to continue giving amounts comparable with prior years may be dependent upon current and future overall economic conditions.

**NOTE 9 – SUBSEQUENT EVENTS**

As a result of liquidity issues experienced in the global credit and capital markets after December 31, 2008, the market value of the Foundation's investment portfolio consisting of common stocks, mutual funds, and international equities has decreased by approximately \$1,500,000 through February 28, 2009, and it is at least reasonably possible that changes in risks in the near term could occur which in turn could further materially affect the amounts of investments or cash and cash equivalents reported in the accompanying financial statements.

## **SUPPLEMENTARY INFORMATION**

**SOUTHERN EDUCATIONAL FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2008**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,350,632	\$ 274,756	\$ 155,135	\$ 1,780,523
Travel costs	302,115	68,185	1,723	372,023
Communication costs	106,265	19,477	4,374	130,116
Depreciation	37,502	8,854	5,729	52,085
Office and building costs	76,291	39,320	1,129	116,740
Institutional management	28,640	55,079	2,159	85,878
Research and development	152	10,355	-	10,507
Grants committed	<u>247,276</u>	<u>-</u>	<u>-</u>	<u>247,276</u>
	<u>\$ 2,148,873</u>	<u>\$ 476,026</u>	<u>\$ 170,249</u>	<u>\$ 2,795,148</u>

**SOUTHERN EDUCATIONAL FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2007**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,201,781	\$ 179,617	\$ 75,682	\$ 1,457,080
Travel costs	260,949	62,017	152	323,118
Communication costs	133,053	15,152	6,395	154,600
Depreciation	96,166	1,963	-	98,129
Office and building costs	71,128	22,785	5,763	99,676
Institutional management	2,154	32,966	-	35,120
Research and development	5,051	-	-	5,051
Grants committed	<u>256,970</u>	<u>-</u>	<u>-</u>	<u>256,970</u>
	<u>\$ 2,027,252</u>	<u>\$ 314,500</u>	<u>\$ 87,992</u>	<u>\$ 2,429,744</u>