



SOUTHERN EDUCATION FOUNDATION, INC.

Financial Statements and Schedule

December 31, 2006 and 2005

(With Independent Auditors' Report Thereon)



KPMG LLP
Suite 2000
303 Peachtree Street, NE
Atlanta, GA 30308

Independent Auditors' Report

The Board of Trustees
Southern Education Foundation, Inc.:

We have audited the accompanying statements of financial position of Southern Education Foundation, Inc. (the Foundation) as of December 31, 2006 and 2005, and the related statements of activities 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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, 2006 and 2005, and its changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in schedules 1 and 2 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 auditing 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.

KPMG LLP

April 12, 2007

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Financial Position

December 31, 2006 and 2005

Assets	2006	2005
Cash and cash equivalents	\$ 5,409,153	3,126,865
Investment securities (note 3)	11,485,778	10,800,057
Grants receivable (note 2)	125,000	240,000
Other assets	75,021	6,470
Building, furniture, and fixtures, net (note 4)	628,929	702,549
Total assets	\$ 17,723,881	14,875,941
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 29,305	52,465
Other liabilities	97,940	106,796
Total liabilities	127,245	159,261
Net assets:		
Unrestricted:		
Board-designated (note 1(b))	8,000,000	8,000,000
Undesignated	4,465,297	3,837,254
Total unrestricted	12,465,297	11,837,254
Temporarily restricted (note 7)	5,118,939	2,867,026
Permanently restricted (note 8)	12,400	12,400
Total net assets	17,596,636	14,716,680
Commitments (note 6)		
Total liabilities and net assets	\$ 17,723,881	14,875,941

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Activities

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Changes in unrestricted net assets:		
Revenue, gains, and other support:		
Contributions	\$ 71,996	42,450
Other revenue	1,295	440
Investment income	171,229	725,239
Net realized and unrealized gains	1,302,752	235,847
Net assets released from restrictions (note 7)	<u>1,613,755</u>	<u>6,809,892</u>
Total unrestricted revenue, gains, and other support	<u>3,161,027</u>	<u>7,813,868</u>
Expenses:		
Program	1,889,032	6,908,308
Management and general	507,344	541,699
Fund-raising	<u>136,608</u>	<u>114,455</u>
Total expenses	<u>2,532,984</u>	<u>7,564,462</u>
Change in unrestricted net assets	<u>628,043</u>	<u>249,406</u>
Changes in temporarily restricted net assets:		
Contributions	5,000	60,250
Grant revenue	3,860,668	6,250,000
Investment income	—	27,348
Net assets released from restrictions (note 7)	<u>(1,613,755)</u>	<u>(6,809,892)</u>
Change in temporarily restricted net assets	<u>2,251,913</u>	<u>(472,294)</u>
Change in net assets	2,879,956	(222,888)
Net assets at beginning of year	<u>14,716,680</u>	<u>14,939,568</u>
Net assets at end of year	<u><u>\$ 17,596,636</u></u>	<u><u>14,716,680</u></u>

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Cash Flows

Years ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 2,879,956	(222,888)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	119,584	62,376
Net realized and unrealized gains	(1,301,721)	(235,847)
Decrease in grants receivable	115,000	290,000
Increase in other assets	(68,551)	(85)
Decrease in accounts payable	(23,160)	(73,580)
Decrease in other liabilities	(8,856)	(6,376)
Net cash provided by (used in) operating activities	<u>1,712,252</u>	<u>(186,400)</u>
Cash flows from investing activities:		
Purchase of furniture and fixtures	(45,964)	(17,174)
Proceeds from the sale of investment securities	666,000	250,200
Purchase of investment securities	<u>(50,000)</u>	<u>(709,418)</u>
Net cash provided by (used in) investing activities	<u>570,036</u>	<u>(476,392)</u>
Increase (decrease) in cash and cash equivalents	2,282,288	(662,792)
Cash and cash equivalents:		
Beginning of year	<u>3,126,865</u>	<u>3,789,657</u>
End of year	<u>\$ 5,409,153</u>	<u>3,126,865</u>

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

December 31, 2006 and 2005

(1) Summary of Significant Accounting Policies

(a) *Description of Business*

Southern Education Foundation, Inc. (the Foundation) is a public charity which was 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 carryout its objectives through research, analysis, advocacy, technical assistance, and outreach.

(b) *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, and permanently restricted.

Unrestricted net assets include amounts that are not subject to donor-imposed stipulations which are used to account for resources which are available to carry out 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, 2006 and 2005.

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.

(c) *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, 2006 and 2005.

(d) *Cash Equivalents*

Cash equivalents consist primarily of money market accounts and other short-term cash investments. 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.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

December 31, 2006 and 2005

(e) 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.

(f) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements 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.

(g) Federal 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).

(h) 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 U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(2) Grants Receivable

Grants receivable consist of the following at December 31, 2006 and 2005:

	2006	2005
Nellie Mae Foundation	\$ —	115,000
William and Flora Hewlett Foundation	125,000	125,000
Total	<u>\$ 125,000</u>	<u>240,000</u>

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

December 31, 2006 and 2005

(3) Investment Securities

Investment securities at December 31, 2006 and 2005 consist of the following:

	2006		2005	
	Fair value	Cost	Fair value	Cost
Domestic corporate bonds	\$ 1,246,524	1,104,612	1,749,609	1,663,426
Domestic equity securities	2,920,211	2,543,648	2,970,016	2,823,716
Federal agency bonds	2,790,384	2,471,710	1,598,408	1,519,672
Foreign bonds	137,232	121,602	648,004	616,083
Foreign equity securities	3,122,028	2,766,597	3,380,418	3,213,902
U.S. Government obligations	1,269,399	1,124,880	453,602	431,258
Total investment securities	\$ 11,485,778	10,133,049	10,800,057	10,268,057

(4) Building, Furniture, and Fixtures

Building, furniture, and fixtures consist of the following at December 31, 2006 and 2005:

	2006	2005
Building	\$ 867,057	867,057
Furniture and fixtures	579,646	533,682
Building improvements	285,591	285,591
	1,732,294	1,686,330
Less accumulated depreciation	1,103,365	983,781
	\$ 628,929	702,549

Depreciation expense totaled \$119,584 and \$62,376 for the years ended December 31, 2006 and 2005, respectively.

(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, 2006 and 2005, contributions to the plan totaled \$96,079 and \$118,018, respectively. The pension contributions have been allocated to the various expense classifications on the same basis as personnel costs.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

December 31, 2006 and 2005

(6) Operating Leases

The Foundation leases office equipment under various operating leases. At December 31, 2006, future minimum lease payments under noncancelable operating leases are as follows:

2007	\$	12,641
2008		12,641
2009		5,267
	\$	<u>30,549</u>

Lease expense for each of the years ended December 31, 2006 and 2005 totaled \$12,641.

(7) Temporarily Restricted Net Assets

Temporarily restricted net assets totaling \$5,118,939 and \$2,867,026 at December 31, 2006 and 2005, respectively, are available to support the Foundation's various research, analysis, advocacy, technical assistance, and outreach programs.

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the restricted purposes specified by donors or grantors, as follows:

	<u>2006</u>	<u>2005</u>
Specific programs	\$ 1,568,022	6,766,249
Administrative cost recovery	45,733	43,643
Total restrictions released	<u>\$ 1,613,755</u>	<u>6,809,892</u>

(8) Permanently Restricted Net Assets

At December 31, 2006 and 2005, permanently restricted net assets consist of the following:

	<u>2006</u>	<u>2005</u>
McMillan Fund	\$ 12,400	12,400

SOUTHERN EDUCATION FOUNDATION, INC.

Supplementary Schedule of Functional Expenses

Year ended December 31, 2006

	Program	Management and general*	Fund-raising	Total
Personnel costs	\$ 917,347	364,386	107,370	1,389,103
Travel costs	204,820	33,304	11,299	249,423
Communication costs	130,921	6,049	16,084	153,054
Depreciation	74,326	45,258	—	119,584
Office and building costs	145,587	1,531	588	147,706
Institutional management	59,111	25,698	1,267	86,076
Research and development	63,277	—	—	63,277
Grants committed	245,543	—	—	245,543
Contributions paid by the Foundation	48,100	—	—	48,100
Professional fees	—	31,118	—	31,118
Total	<u>\$ 1,889,032</u>	<u>507,344</u>	<u>136,608</u>	<u>2,532,984</u>

* Management and general expenses totaling \$113,124 during 2006 related to the implementation of a new accounting system, development of an accounting policies and procedures manual, and extensive repairs for the elevator and furnace.

See accompanying independent auditors' report.

SOUTHERN EDUCATION FOUNDATION, INC.

Supplementary Schedule of Functional Expenses

Year ended December 31, 2005

	Program	Management and general	Fund-raising	Total
Personnel costs	\$ 1,391,636	262,303	102,476	1,756,415
Travel costs	398,831	31,983	7,661	438,475
Communication costs	94,641	26,536	3,342	124,519
Depreciation	38,769	23,607	—	62,376
Office and building costs	42,864	68,521	333	111,718
Institutional management	2,802	24,159	643	27,604
Research and development	30,106	—	—	30,106
Grants committed	4,855,339	—	—	4,855,339
Contributions paid by the Foundation	53,320	68,151	—	121,471
Professional fees	—	36,439	—	36,439
Total	<u>\$ 6,908,308</u>	<u>541,699</u>	<u>114,455</u>	<u>7,564,462</u>

See accompanying independent auditors' report.