

SOUTHERN EDUCATION FOUNDATION, INC.

**FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2007 AND 2006**

**with
INDEPENDENT AUDITORS' REPORT**

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INDEPENDENT AUDITORS' REPORT

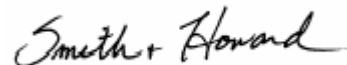
**The Board of Trustees
Southern Education Foundation, Inc.**

We have audited the accompanying statement of financial position of Southern Education Foundation, Inc. (the Foundation) as of December 31, 2007 and the related statements of activities and changes in net assets and cash flows for the year 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 audit. The financial statements of the Foundation as of and for the year ended December 31, 2006 were audited by other auditors whose report dated April 12, 2007 expressed an unqualified opinion on those statements.

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 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 audit provides 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, 2007, and its changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our 2007 audit was made for the purpose of forming an opinion on the basic 2007 financial statements taken as a whole. The 2007 supplementary information included on page 14 is presented for purposes of additional analysis and is not a required part of the basic 2007 financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 2007 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic 2007 financial statements taken as a whole.



February 13, 2008

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2007 AND 2006

ASSETS

	<u>2007</u>	<u>2006</u>
Cash and Cash Equivalents	\$ 8,424,973	\$ 5,409,153
Investment Securities (Note 3)	12,482,467	11,485,778
Grants Receivable (Note 2)	100,000	125,000
Pledges Receivable	15,700	-
Other Assets	18,079	75,021
Building, Furniture, and Fixtures, Net (Note 4)	<u>536,522</u>	<u>628,929</u>
	<u><u>\$ 21,577,741</u></u>	<u><u>\$ 17,723,881</u></u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 36,258	\$ 29,305
Other Liabilities	<u>55,705</u>	<u>97,940</u>
Total Liabilities	<u>91,963</u>	<u>127,245</u>
Commitments (Note 6)		
Net Assets		
Unrestricted net assets		
Board-designated (Note 1)	8,000,000	8,000,000
Undesignated	<u>5,248,539</u>	<u>4,465,297</u>
	13,248,539	12,465,297
Temporarily restricted (Note 7)	8,224,839	5,118,939
Permanently restricted	<u>12,400</u>	<u>12,400</u>
	<u>21,485,778</u>	<u>17,596,636</u>
	<u><u>\$ 21,577,741</u></u>	<u><u>\$ 17,723,881</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, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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 ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, gains and other support:				
Contributions	\$ 71,996	\$ 5,000	\$ -	\$ 76,996
Grant revenue	-	3,860,668	-	3,860,668
Other revenue	1,295	-	-	1,295
Investment income	171,229	-	-	171,229
Net realized and unrealized gains	1,302,752	-	-	1,302,752
Net assets released from restrictions (Note 7)	<u>1,613,755</u>	<u>(1,613,755)</u>	<u>-</u>	<u>-</u>
Total revenue, gains and other support	<u>3,161,027</u>	<u>2,251,913</u>	<u>-</u>	<u>5,412,940</u>
Expenses:				
Program	1,889,032	-	-	1,889,032
Management and general	507,344	-	-	507,344
Fundraising	<u>136,608</u>	<u>-</u>	<u>-</u>	<u>136,608</u>
Total expenses	<u>2,532,984</u>	<u>-</u>	<u>-</u>	<u>2,532,984</u>
Increase in Net Assets	628,043	2,251,913	-	2,879,956
Net Assets:				
Beginning of year	<u>11,837,254</u>	<u>2,867,026</u>	<u>12,400</u>	<u>14,716,680</u>
End of year	<u>\$ 12,465,297</u>	<u>\$ 5,118,939</u>	<u>\$ 12,400</u>	<u>\$ 17,596,636</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Increase in net assets	\$ 3,889,142	\$ 2,879,956
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	98,129	119,584
Net realized and unrealized gains	(458,616)	(1,301,721)
Decrease in grants receivable	25,000	115,000
Increase in pledges receivable	(15,700)	-
(Increase) decrease in other assets	56,942	(68,551)
Increase (decrease) in accounts payable	6,953	(23,160)
Increase (decrease) in other liabilities	<u>(42,235)</u>	<u>(8,856)</u>
Net cash provided by operating activities	<u>3,559,615</u>	<u>1,712,252</u>
Cash flows from investing activities:		
Purchase of furniture and fixtures	(5,722)	(45,964)
Proceeds from the sale of investment securities	1,147,573	666,000
Purchase of investment securities	<u>(1,685,646)</u>	<u>(50,000)</u>
Net cash provided (required) by investing activities	<u>(543,795)</u>	<u>570,036</u>
Net Increase In Cash and Cash Equivalents	3,015,820	2,282,288
Cash and Cash Equivalents at Beginning of Year	<u>5,409,153</u>	<u>3,126,865</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 8,424,973</u></u>	<u><u>\$ 5,409,153</u></u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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 carryout 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 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, 2007 and 2006.

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, 2007 and 2006, permanently restricted net assets consisted of a contribution from the McMillan Fund.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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, 2007 and 2006.

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.

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 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.

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, 2007 AND 2006

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. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2006 financial statements in order to conform to the 2007 presentation.

NOTE 2 – GRANTS RECEIVABLE

Grants receivable consist of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Nellie Mae Foundation	\$ 50,000	\$ -
United Way	50,000	-
William and Flora Hewlett Foundation	-	125,000
Total	<u>\$ 100,000</u>	<u>\$ 125,000</u>

NOTE 3 – INVESTMENT SECURITIES

Investment securities at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>		<u>2006</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Domestic corporate bonds	\$ 310,418	\$ 250,964	\$ 1,246,524	\$ 1,104,612
Domestic equity securities	2,114,490	1,722,089	2,920,211	2,543,648
Federal agency bonds	3,625,688	2,931,256	2,790,384	2,471,710
Foreign bonds	111,751	90,347	137,232	121,602
Foreign equity securities	4,432,776	3,583,762	3,122,028	2,766,597
U.S. Government obligations	1,887,344	1,525,859	1,269,399	1,124,880
	<u>\$12,482,467</u>	<u>\$10,104,277</u>	<u>\$11,485,778</u>	<u>\$10,133,049</u>

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 4 – BUILDING, FURNITURE, AND FIXTURES

Building, furniture, and fixtures consist of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Building	\$ 867,057	\$ 867,057
Furniture and fixtures	584,291	579,646
Building improvements	<u>285,591</u>	<u>285,591</u>
	1,736,939	1,732,294
Less accumulated depreciation	<u>1,200,417</u>	<u>1,103,365</u>
Total	<u><u>\$ 536,522</u></u>	<u><u>\$ 628,929</u></u>

Depreciation expense totaled \$98,129 and \$119,584 for the years ended December 31, 2007 and 2006, 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, 2007 and 2006, contributions to the plan totaled \$109,041 and \$96,079, 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, 2007, future minimum lease payments under noncancelable operating leases are as follows:

2008	\$ 12,641
2009	<u>5,267</u>
	<u><u>\$ 17,908</u></u>

Lease expense for each of the years ended December 31, 2007 and 2006 totaled \$12,641.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaling \$8,224,839 and \$5,118,939 at December 31, 2007 and 2006, 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>2007</u>	<u>2006</u>
Specific programs	\$ 1,924,100	\$ 1,568,022
Administrative cost recovery	-	<u>45,733</u>
Total restrictions released	<u>\$ 1,924,100</u>	<u>\$ 1,613,755</u>

SUPPLEMENTARY INFORMATION

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

	<u>Program</u>	<u>Management and General</u>	<u>Fund-raising</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>

SOUTHERN EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2006

	<u>Program</u>	<u>Management and General*</u>	<u>Fund-raising</u>	<u>Total</u>
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	56,816	1,267	117,194
Research and development	63,277	-	-	63,277
Grants committed	<u>293,643</u>	<u>-</u>	<u>-</u>	<u>293,643</u>
	<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.