

SOUTHERN EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2010 AND 2009

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, 2010 and 2009 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, 2010 and 2009, 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 15-16 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.

Smith & Howard

April 8, 2011

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2010 AND 2009

ASSETS

	<u>2010</u>	<u>2009</u>
Cash and Cash Equivalents	\$ 1,833,271	\$ 2,967,081
Investment Securities (Note 2)	21,327,863	18,589,709
Grants Receivable (Note 3)	970,000	1,290,000
Other Assets	33,047	22,775
Building, Furniture and Fixtures, Net (Note 4)	<u>351,184</u>	<u>417,833</u>
	<u>\$ 24,515,365</u>	<u>\$ 23,287,398</u>

LIABILITIES AND NET ASSETS

Accounts Payable	\$ 9,490	\$ 2,000
Other Liabilities	<u>64,146</u>	<u>52,028</u>
Total Liabilities	<u>73,636</u>	<u>54,028</u>
Commitments (Note 6)		
Net Assets		
Unrestricted net assets		
Board-designated (Note 1)	8,000,000	8,000,000
Undesignated	<u>4,851,045</u>	<u>3,105,322</u>
	12,851,045	11,105,322
Temporarily restricted (Note 7)	11,578,284	12,115,648
Permanently restricted	<u>12,400</u>	<u>12,400</u>
	<u>24,441,729</u>	<u>23,233,370</u>
	<u>\$ 24,515,365</u>	<u>\$ 23,287,398</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, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support:				
Contributions	\$ 40,538	\$ -	\$ -	\$ 40,538
Grant revenue	-	1,700,000	-	1,700,000
Other revenue	42	-	-	42
Investment income	651,100	-	-	651,100
Net realized and unrealized gains	1,207,559	-	-	1,207,559
Net assets released from restrictions (Note 7)	<u>2,237,364</u>	<u>(2,237,364)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>4,136,603</u>	<u>(537,364)</u>	<u>-</u>	<u>3,599,239</u>
Expenses:				
Program	1,752,792	-	-	1,752,792
Management and general	579,591	-	-	579,591
Fundraising	<u>58,497</u>	<u>-</u>	<u>-</u>	<u>58,497</u>
Total Expenses	<u>2,390,880</u>	<u>-</u>	<u>-</u>	<u>2,390,880</u>
Increase (Decrease) in Net Assets	1,745,723	(537,364)	-	1,208,359
Net Assets:				
Beginning of Year	<u>11,105,322</u>	<u>12,115,648</u>	<u>12,400</u>	<u>23,233,370</u>
End of Year	<u>\$ 12,851,045</u>	<u>\$ 11,578,284</u>	<u>\$ 12,400</u>	<u>\$ 24,441,729</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, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support:				
Contributions	\$ 59,664	\$ -	\$ -	\$ 59,664
Grant revenue	-	3,790,000	-	3,790,000
Other revenue	531	-	-	531
Investment income	422,992	-	-	422,992
Net realized and unrealized gains	451,129	-	-	451,129
Net assets released from restrictions (Note 7)	<u>1,862,115</u>	<u>(1,862,115)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains and Other Support	<u>2,796,431</u>	<u>1,927,885</u>	<u>-</u>	<u>4,724,316</u>
Expenses:				
Program	1,670,596	-	-	1,670,596
Management and general	461,006	-	-	461,006
Fundraising	<u>105,173</u>	<u>-</u>	<u>-</u>	<u>105,173</u>
Total Expenses	<u>2,236,775</u>	<u>-</u>	<u>-</u>	<u>2,236,775</u>
Increase in Net Assets	559,656	1,927,885	-	2,487,541
Net Assets:				
Beginning of Year	<u>10,545,666</u>	<u>10,187,763</u>	<u>12,400</u>	<u>20,745,829</u>
End of Year	<u>\$ 11,105,322</u>	<u>\$ 12,115,648</u>	<u>\$ 12,400</u>	<u>\$ 23,233,370</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities:		
Increase in Net Assets	\$ 1,208,359	\$ 2,487,541
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	73,763	83,472
Net realized and unrealized gains	(1,207,559)	(451,129)
(Increase) decrease in grants receivable	320,000	(849,500)
Increase in other assets	(10,272)	(8,559)
Increase (decrease) in accounts payable	7,490	(130,183)
Increase (decrease) in other liabilities	<u>12,118</u>	<u>(32,063)</u>
Net Cash Provided by Operating Activities	<u>403,899</u>	<u>1,099,579</u>
Cash Flows From Investing Activities:		
Purchase of furniture and fixtures	(7,114)	(2,502)
Proceeds from the sale of investment securities	2,076,275	12,654,235
Purchase of investment securities	<u>(3,606,870)</u>	<u>(11,624,579)</u>
Net Cash Provided (Required) by Investing Activities	<u>(1,537,709)</u>	<u>1,027,154</u>
Net Increase (Decrease) In Cash and Cash Equivalents	(1,133,810)	2,126,733
Cash and Cash Equivalents at Beginning of Year	<u>2,967,081</u>	<u>840,348</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,833,271</u>	<u>\$ 2,967,081</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

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 Foundation follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP").

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, 2010 and 2009.

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, 2010 and 2009, permanently restricted net assets consisted of a contribution from the McMillan Fund.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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.

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, 2010 and 2009.

Fair Values Measured on Recurring Basis

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs in which little or no market data exists (Level 3 measurements). The three levels of the fair value hierarchy under GAAP are described below:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

As required by GAAP, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. At December 31, 2010 and 2009, all of the Foundation's investment securities are classified as Level 1.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Credit Risk

Financial instruments that potentially subject the Foundation to significant concentrations of credit risk consist principally of cash and cash equivalents and investment securities. As a result of liquidity issues experienced in the global credit and capital markets, it is at least reasonably possible that changes in risk in the near term could occur which in turn could materially affect the amounts reported in the accompanying financial statements.

Building, Furniture and Fixtures

Building, furniture and fixtures are stated at cost. The Foundation capitalizes all expenditures in excess of \$3,000 for building, furniture and fixtures and with an estimated useful life of two years or more. The building consists of a condominium interest in an office building and associated building improvements 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).

The Foundation annually evaluates all federal and state income tax positions. This process includes an analysis of whether these income tax positions the Foundation takes meet the definition of an uncertain tax position under the Income Taxes Topic of the Financial Accounting Standards Codification.

**SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009**

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 GAAP. Actual results could differ from those estimates.

Subsequent Events

Management has evaluated subsequent events through April 8, 2011, the date which the financial statements were available to be issued.

NOTE 2 – INVESTMENT SECURITIES

Investment securities consist of the following at December 31:

	<u>2010</u>		<u>2009</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Certificate of deposit	\$ 259,270	\$ 250,000	\$ 255,931	\$ 250,000
Domestic corporate bonds	8,907,915	8,170,313	7,191,869	6,638,230
Domestic equity securities	7,064,205	5,737,060	4,534,013	3,944,067
Commodity linked funds	1,017,165	743,801	629,251	501,387
U.S. Government obligations	3,063,786	3,068,415	1,511,431	1,479,682
Real estate	437,199	398,523	-	-
Short-term money market	578,323	613,971	4,467,214	4,480,250
	<u>\$21,327,863</u>	<u>\$18,982,083</u>	<u>\$18,589,709</u>	<u>\$17,293,616</u>

NOTE 3 – GRANTS RECEIVABLE

Grants receivable consist of the following at December 31:

	<u>2010</u>	<u>2009</u>
Atlantic Philanthropies	\$ -	\$ 750,000
Teagle Foundation	100,000	200,000
Lumina Foundation	200,000	200,000
Mott Foundation	670,000	140,000
	<u>\$ 970,000</u>	<u>\$ 1,290,000</u>

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 4 – BUILDING, FURNITURE AND FIXTURES

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

	<u>2010</u>	<u>2009</u>
Building	\$ 867,057	\$ 867,057
Furniture and fixtures	598,825	591,711
Building improvements	<u>295,041</u>	<u>295,041</u>
	1,760,923	1,753,809
Less accumulated depreciation	<u>1,409,739</u>	<u>1,335,976</u>
Total	<u>\$ 351,184</u>	<u>\$ 417,833</u>

Depreciation expense totaled \$73,763 and \$83,472 for the years ended December 31, 2010 and 2009, 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, 2010 and 2009, contributions to the plan totaled \$112,177 and \$120,857, 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, 2010, future minimum lease payments under noncancelable operating leases are as follows for years ending December 31:

2011	\$ 12,770
2012	12,809
2013	6,520
2014	<u>2,028</u>
	<u>\$ 34,127</u>

Lease expense for the years ended December 31, 2010 and 2009 totaled \$18,172 and \$13,438, respectively.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010 AND 2009

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaling \$11,578,284 and \$12,115,648 at December 31, 2010 and 2009, respectively, are available to support the Foundation's various research, analysis, advocacy, technical assistance, and outreach programs.

Temporarily restricted net assets totaling \$2,237,364 and \$1,862,115 were released from restrictions during the years ended December 31, 2010 and 2009, 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, 2010, the Foundation received approximately 88% of its grant revenue from four organizations. During the year ended December 31, 2009, the Foundation received approximately 79% of its grant revenue from three organizations. 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.

SUPPLEMENTARY INFORMATION

SOUTHERN EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2010

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,150,269	\$ 223,649	\$ 47,896	\$ 1,421,814
Travel and meeting	240,769	37,169	-	277,938
Communication and publication	113,660	38,875	1,500	154,035
Depreciation	53,109	12,540	8,114	73,763
Office and building	63,728	49,852	833	114,413
Institutional management	33,500	217,506	154	251,160
Grants committed	<u>97,757</u>	<u>-</u>	<u>-</u>	<u>97,757</u>
	<u>\$ 1,752,792</u>	<u>\$ 579,591</u>	<u>\$ 58,497</u>	<u>\$ 2,390,880</u>

SOUTHERN EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2009

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,084,031	\$ 233,297	\$ 62,556	\$ 1,379,884
Travel and meeting	182,233	28,114	171	210,518
Communication and publication	91,337	18,807	3,214	113,358
Depreciation	60,100	14,190	9,182	83,472
Office and building	26,536	66,981	-	93,517
Institutional management	23,169	99,617	30,050	152,836
Research and development	17,861	-	-	17,861
Grants committed	<u>185,329</u>	<u>-</u>	<u>-</u>	<u>185,329</u>
	<u>\$ 1,670,596</u>	<u>\$ 461,006</u>	<u>\$ 105,173</u>	<u>\$ 2,236,775</u>

