



SOUTHERN EDUCATION FOUNDATION, INC.

Financial Statements and Schedule

March 31, 2004 and 2003

(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 March 31, 2004 and 2003, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 March 31, 2004 and 2003, 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 in Schedule 1 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

June 11, 2004

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Financial Position

March 31, 2004 and 2003

Assets	2004	2003
Cash and cash equivalents (note 2)	\$ 3,626,493	4,456,203
Investment securities (note 5)	9,524,598	7,091,987
Grants receivable (note 4)	3,604,500	495,000
Other assets (note 3)	71,038	122,609
Building, furniture, and fixtures, net (note 6)	598,106	569,062
Total assets	\$ 17,424,735	12,734,861
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 115,477	181,904
Grants payable	4,398	—
Other liabilities	75,912	51,892
Total liabilities	195,787	233,796
Net assets:		
Unrestricted:		
Board-designated (note 1(b))	8,000,000	7,000,000
Undesignated	2,645,936	2,867,505
Total unrestricted	10,645,936	9,867,505
Temporarily restricted (note 9)	6,570,962	2,633,560
Permanently restricted (note 10)	12,050	—
Total net assets	17,228,948	12,501,065
Commitments (notes 7 and 8)		
Total liabilities and net assets	\$ 17,424,735	12,734,861

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Activities

Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Changes in unrestricted net assets:		
Revenue, gains, and other support:		
Contributions	\$ 29,450	30,175
Other revenue	65,115	—
Investment income	224,945	515,395
Net realized and unrealized gains (losses)	917,142	(1,779,002)
Net assets released from restrictions (note 9)	4,960,143	4,735,403
Total unrestricted revenue, gains, and other support	<u>6,196,795</u>	<u>3,501,971</u>
Expenses:		
Program	4,615,692	4,454,993
Management and general	787,662	801,723
Fund raising	15,010	17,053
Total expenses	<u>5,418,364</u>	<u>5,273,769</u>
Change in unrestricted net assets	<u>778,431</u>	<u>(1,771,798)</u>
Changes in temporarily restricted net assets:		
Grant revenue	8,894,500	4,296,500
Investment income	3,045	10,259
Net assets released from restrictions (note 9)	(4,960,143)	(4,735,403)
Change in temporarily restricted net assets	<u>3,937,402</u>	<u>(428,644)</u>
Changes in permanently restricted net assets:		
Private gifts and grants	12,050	—
Change in net assets	4,727,883	(2,200,442)
Net assets at beginning of year	<u>12,501,065</u>	<u>14,701,507</u>
Net assets at end of year	<u><u>\$ 17,228,948</u></u>	<u><u>12,501,065</u></u>

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Statements of Cash Flows

Years ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,727,883	(2,200,442)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	53,300	40,106
Net realized and unrealized (gains) losses	(917,142)	1,779,002
(Increase) decrease in grants receivable	(3,109,500)	1,237,000
Decrease (increase) in other assets	51,571	(11,392)
(Decrease) increase in accounts payable	(66,427)	147,189
Increase (decrease) in grants payable	4,398	(100,000)
Increase in other liabilities	24,020	16,167
Net cash provided by operating activities	<u>768,103</u>	<u>907,630</u>
Cash flows from investing activities:		
Purchase of furniture and fixtures	(82,344)	(56,677)
Proceeds from the sale of investment securities	31,732,000	9,296,681
Purchase of investment securities	<u>(33,247,469)</u>	<u>(7,687,808)</u>
Net cash (used in) provided by investing activities	<u>(1,597,813)</u>	<u>1,552,196</u>
(Decrease) increase in cash and cash equivalents	(829,710)	2,459,826
Cash and cash equivalents:		
Beginning of year	<u>4,456,203</u>	<u>1,996,377</u>
End of year	<u>\$ 3,626,493</u>	<u>4,456,203</u>

See accompanying notes to financial statements.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2004 and 2003

(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.

(b) Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting and reflect all significant receivables and payables.

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 and temporarily 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 and \$7,000,000 as the historic dollar value of unrestricted net assets for long-term investment as of March 31, 2004 and 2003, respectively.

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. Debt and equity securities are stated at fair value. 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 March 31, 2004 and 2003.

(d) Cash Equivalents

Cash equivalents consist primarily of money market accounts and other short-term cash investments. For purposes of the statement of cash flows, the Foundation considers all short-term, interest-bearing deposits with maturities of three months or less to be cash equivalents.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2004 and 2003

(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 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.

(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 accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

(i) *Reclassifications*

Certain reclassifications have been made to the 2003 amounts to conform with the 2004 presentation.

(2) *Cash and Cash Equivalents*

Cash and cash equivalents at March 31, 2004 and 2003 consist of cash, short-term investments, and cash management trust.

Cash and cash equivalents totaled \$3,624,493 and \$4,456,203 for the years ended March 31, 2004 and 2003, respectively.

(3) *Other Assets*

Included in other assets is a note receivable from another not-for-profit organization.

In December 1998, the Foundation paid \$50,000 to a financial institution related to the purchase of a note receivable. The note and any rights to it were assigned to the Foundation. The principal balance of the note at the time of purchase was approximately \$150,000 with a fixed interest rate of 10% per annum and the note is collateralized by the office space of the original debtor. As of March 31, 2004, the Foundation reported the note receivable, net of allowance for doubtful accounts, totaling \$50,000 to fully reserve the outstanding balance.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2004 and 2003

(4) Grants Receivable

Grants receivable consists of the following at March 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Ford Foundation	\$ 1,425,000	—
Kellogg	—	200,000
Kresge Foundation	1,582,000	—
Lettie Pate Evans Foundation	—	120,000
Entergy Corporation	87,500	—
Winthrop Rockefeller Foundation	160,000	—
Mellon Foundation	350,000	—
Packard Foundation	—	175,000
Total	<u>\$ 3,604,500</u>	<u>495,000</u>

(5) Investment Securities

Investment securities at March 31, 2004 and 2003 consist of the following:

	<u>2004</u>		<u>2003</u>	
	<u>Fair value</u>	<u>Cost</u>	<u>Fair value</u>	<u>Cost</u>
Investment securities:				
U.S. Government obligations	\$ 316,682	315,582	1,398,554	1,397,166
Corporate bonds	1,103,228	1,087,249	1,903,141	1,869,215
Federal agency bonds	1,836,303	1,819,624	1,778,694	1,774,400
Equity securities	6,268,385	5,577,232	2,011,598	2,061,991
Total investment securities	<u>\$ 9,524,598</u>	<u>8,799,687</u>	<u>7,091,987</u>	<u>7,102,772</u>

(6) Building, Furniture, and Fixtures

Building, furniture, and fixtures consist of the following at March 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Building	\$ 867,057	867,057
Furniture and fixtures	465,821	383,477
Building improvements	98,824	98,824
	<u>1,431,702</u>	<u>1,349,358</u>
Less accumulated depreciation	<u>833,596</u>	<u>780,296</u>
	<u>\$ 598,106</u>	<u>569,062</u>

Depreciation expense totaled \$53,300 and \$40,106 for the years ended March 31, 2004 and 2003, respectively.

SOUTHERN EDUCATION FOUNDATION, INC.

Notes to Financial Statements

March 31, 2004 and 2003

(7) 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 March 31, 2004 and 2003, contributions to the plan totaled \$120,512 and \$109,217, respectively. The pension contributions have been allocated to the various expense classifications on the same basis as salary costs.

(8) Operating Leases

The Foundation leases office equipment under various operating leases. At March 31, 2004, future minimum lease payments under noncancelable operating leases are as follows:

2005	\$	11,462
2006		—
	\$	<u>11,462</u>

Total lease expense for the years ended March 31, 2004 and 2003 was \$11,462.

(9) Temporarily Restricted Net Assets

At March 31, 2004 and 2003, temporarily restricted net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
Programs	\$ <u>6,570,962</u>	<u>2,633,560</u>

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

	<u>2004</u>	<u>2003</u>
Programs	\$ 4,610,525	4,398,520
Administrative cost recovery	<u>349,618</u>	<u>336,883</u>
Total restrictions released	\$ <u>4,960,143</u>	<u>4,735,403</u>

(10) Permanently Restricted Net Assets

At March 31, 2004 and 2003, permanently restricted net assets are available for the following purposes:

	<u>2004</u>	<u>2003</u>
McMillan Fund	\$ <u>12,050</u>	<u>—</u>

SOUTHERN EDUCATION FOUNDATION, INC.

Supplementary Schedule of Functional Expenses

March 31, 2004

(With comparative totals for 2003)

	Program	Management and general	Fundraising	Total 2004	Total 2003
Personnel costs	\$ 1,556,312	356,389	14,362	1,927,063	1,838,655
Travel costs	438,578	43,685	648	482,911	420,304
Communication costs	96,465	18,989	—	115,454	238,773
Depreciation and amortization	—	53,300	—	53,300	40,106
Office and building costs	118,257	52,751	—	171,008	168,846
Institutional management	29,957	119,042	—	148,999	163,563
Research and development	806	—	—	806	55,688
Grants committed	2,260,717	—	—	2,260,717	1,987,299
Contributions paid by SEF	114,600	50,045	—	164,645	287,103
Investment management fees	—	93,461	—	93,461	73,432
Total	<u>\$ 4,615,692</u>	<u>787,662</u>	<u>15,010</u>	<u>5,418,364</u>	<u>5,273,769</u>

See accompanying independent auditors' report.