

SOUTHERN EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2013 AND 2012

with
INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Trustees Southern Education Foundation, Inc.

We have audited the accompanying financial statements of Southern Education Foundation, Inc. (a nonprofit organization), (the "foundation") which comprise the statement of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the foundation's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

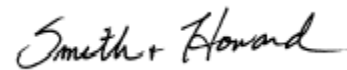
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Smith + Howard".

June 13, 2014

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 692,233	\$ 898,472
Investment Securities	22,597,765	22,649,560
Grants Receivable	300,000	440,000
Other Assets	19,627	20,496
Building, Furniture and Fixtures, Net	<u>330,374</u>	<u>415,867</u>
	<u>\$ 23,939,999</u>	<u>\$ 24,424,395</u>

LIABILITIES AND NET ASSETS

Accrued Liabilities	<u>\$ 51,621</u>	<u>\$ 60,318</u>
Total Liabilities	<u>51,621</u>	<u>60,318</u>
 Net Assets		
Unrestricted net assets		
Board-designated	8,000,000	8,000,000
Undesignated	<u>6,772,899</u>	<u>5,868,105</u>
	14,772,899	13,868,105
Temporarily restricted	9,103,079	10,483,572
Permanently restricted	<u>12,400</u>	<u>12,400</u>
	<u>23,888,378</u>	<u>24,364,077</u>
	<u>\$ 23,939,999</u>	<u>\$ 24,424,395</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support:				
Contributions	\$ 55,209	\$ -	\$ -	\$ 55,209
Grant revenue	-	496,000	-	496,000
Other revenue	26,865	-	-	26,865
Investment income	558,548	-	-	558,548
Net realized and unrealized gains	1,170,998	-	-	1,170,998
Net assets released from restrictions	<u>1,876,493</u>	<u>(1,876,493)</u>	-	<u>-</u>
 Total Revenue, Gains and Other Support	 <u>3,688,113</u>	 <u>(1,380,493)</u>	 -	 <u>2,307,620</u>
 Expenses:				
Program	2,069,958	-	-	2,069,958
Management and general	615,592	-	-	615,592
Fundraising	<u>97,769</u>	<u>-</u>	<u>-</u>	<u>97,769</u>
 Total Expenses	 <u>2,783,319</u>	 <u>-</u>	 <u>-</u>	 <u>2,783,319</u>
 Increase (Decrease) in Net Assets	 904,794	 (1,380,493)	 -	 (475,699)
 Net Assets:				
Beginning of Year	<u>13,868,105</u>	<u>10,483,572</u>	<u>12,400</u>	<u>24,364,077</u>
 End of Year	 <u>\$ 14,772,899</u>	 <u>\$ 9,103,079</u>	 <u>\$ 12,400</u>	 <u>\$ 23,888,378</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, Gains and Other Support:				
Contributions	\$ 20,125	\$ 25,000	\$ -	45,125
Grant revenue	-	550,000	-	550,000
Other revenue	48,451	-	-	48,451
Investment income	713,751	-	-	713,751
Net realized and unrealized gains	1,505,404	-	-	1,505,404
Net assets released from restrictions	<u>1,736,792</u>	<u>(1,736,792)</u>	-	<u>-</u>
Total Revenue, Gains and Other Support	<u>4,024,523</u>	<u>(1,161,792)</u>	-	<u>2,862,731</u>
Expenses:				
Program	1,992,951	-	-	1,992,951
Management and general	424,100	-	-	424,100
Fundraising	<u>109,208</u>	<u>-</u>	<u>-</u>	<u>109,208</u>
Total Expenses	<u>2,526,259</u>	<u>-</u>	<u>-</u>	<u>2,526,259</u>
Increase (Decrease) in Net Assets	1,498,264	(1,161,792)	-	336,472
Net Assets:				
Beginning of Year	<u>12,369,841</u>	<u>11,645,364</u>	<u>12,400</u>	<u>24,027,605</u>
End of Year	<u>\$ 13,868,105</u>	<u>\$ 10,483,572</u>	<u>\$ 12,400</u>	<u>\$ 24,364,077</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities:		
Increase (Decrease) in Net Assets	\$ (475,699)	\$ 336,472
Adjustments to reconcile increase (decrease) in net assets to net cash required by operating activities:		
Depreciation	85,493	89,420
Net realized and unrealized gains	(1,170,998)	(1,505,404)
Decrease in grants receivable	140,000	122,500
(Increase) decrease in other assets	869	(2,812)
Decrease in accounts payable	-	(10,746)
Decrease in other liabilities	<u>(8,697)</u>	<u>(15,475)</u>
Net Cash Required by Operating Activities	<u>(1,429,032)</u>	<u>(986,045)</u>
 Cash Flows From Investing Activities:		
Purchase of furniture and fixtures	-	(7,136)
Proceeds from the sale of investment securities	21,502,070	4,306,142
Purchase of investment securities	<u>(20,279,277)</u>	<u>(4,395,935)</u>
Net Cash Provided (Required) by Investing Activities	<u>1,222,793</u>	<u>(96,929)</u>
 Net Decrease In Cash and Cash Equivalents	(206,239)	(1,082,974)
Cash and Cash Equivalents at Beginning of Year	<u>898,472</u>	<u>1,981,446</u>
Cash and Cash Equivalents at End of Year	<u>\$ 692,233</u>	<u>\$ 898,472</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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, 2013 and 2012.

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, 2013 and 2012, permanently restricted net assets consisted of a contribution from the McMillan Fund.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

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 interest-bearing cash deposits at a financial institution that may at times exceed the federally insured limit. For purposes of the statement 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, 2013 and 2012.

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.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Fair Value Measurement (Continued)

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, 2013 and 2012, all of the Foundation's investment securities are classified as Level 1.

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. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks 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 ten to thirty years. Furniture and fixtures are being depreciated on a straight-line basis over estimated lives of three 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, 2013 AND 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

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.

In the normal course of business, the Foundation is subject to examination by federal and state taxing authorities. The Foundation believes it is no longer subject to tax examinations for tax years ending before December 31, 2010.

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 the date of this report, which is the date the financial statements were available to be issued.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 2 – INVESTMENT SECURITIES

Investment securities consist of the following at December 31:

	<u>2013</u>		<u>2012</u>	
	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>
Certificate of deposit	\$ -	\$ -	\$ 255,949	\$ 250,000
Mutual funds	507,418	615,947	1,145,642	1,145,642
Domestic corporate bonds	5,720,563	5,010,396	7,599,396	6,598,570
Domestic equity securities	10,455,111	7,296,495	7,553,294	5,946,056
Commodity linked funds	979,740	1,138,350	963,607	826,044
U.S. Government obligations	3,386,138	3,359,271	3,942,102	3,805,318
Real estate	508,863	969,340	941,748	854,074
Short-term money market	1,039,932	508,863	247,822	247,822
	<u>\$22,597,765</u>	<u>\$18,898,662</u>	<u>\$22,649,560</u>	<u>\$19,673,526</u>

NOTE 3 – GRANTS RECEIVABLE

Grants receivable consist of the following at December 31:

	<u>2013</u>	<u>2012</u>
The Atlantic Philanthropies	\$ 150,000	\$ 400,000
Texas Guaranteed - Higher Education	150,000	-
Mott Foundation	-	40,000
	<u>\$ 300,000</u>	<u>\$ 440,000</u>

**SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012**

NOTE 3 – GRANTS RECEIVABLE (Continued)

The estimated future cash flows are as follows for years ending December 31:

2013	\$ -	\$ 290,000
2014	150,000	150,000
2015	<u>150,000</u>	<u>-</u>
	<u>\$ 300,000</u>	<u>\$ 440,000</u>

NOTE 4 – BUILDING, FURNITURE AND FIXTURES

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

	<u>2013</u>	<u>2012</u>
Building	\$ 867,057	\$ 867,057
Furniture and fixtures	148,128	148,128
Building improvements	<u>426,143</u>	<u>426,143</u>
	1,441,328	1,441,328
Less accumulated depreciation	<u>1,110,954</u>	<u>1,025,461</u>
Total	<u>\$ 330,374</u>	<u>\$ 415,867</u>

Depreciation expense totaled \$85,493 and \$89,420 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, contributions to the plan totaled \$144,385 and \$135,098, 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, 2013 AND 2012

NOTE 6 – OPERATING LEASES

The Foundation leases office equipment under various operating leases. At December 31, 2013, future minimum lease payments under noncancelable operating leases are as follows for years ending December 31:

2014	\$ 11,027
2015	10,182
2016	8,999
2017	<u>5,450</u>
	<u>\$ 35,658</u>

Lease expense for the years ended December 31, 2013 and 2012 totaled \$16,048 and \$13,410, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets totaling \$9,103,079 and \$10,483,572 at December 31, 2013 and 2012, respectively, are available to support the Foundation’s various research, analysis, advocacy, technical assistance, and outreach programs.

Temporarily restricted net assets totaling \$1,876,493 and \$1,736,792 were released from restrictions during the years ended December 31, 2013 and 2012, 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, 2013, the Foundation received approximately 81% of its grant revenue from three organizations. During the year ended December 31, 2012, the Foundation received approximately 91% of its grant revenue from two 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, 2013

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,196,298	\$ 269,412	\$ 55,181	\$ 1,520,891
Travel and meeting	315,374	65,364	-	380,738
Communication and publication	77,708	13,221	2,708	93,637
Depreciation	68,394	13,185	3,914	85,493
Office and building	15,524	81,543	15,449	112,516
Institutional management	34,538	172,867	20,517	227,922
Research and development	20,579	-	-	20,579
Grants committed	<u>341,543</u>	<u>-</u>	<u>-</u>	<u>341,543</u>
	<u>\$ 2,069,958</u>	<u>\$ 615,592</u>	<u>\$ 97,769</u>	<u>\$ 2,783,319</u>

SOUTHERN EDUCATIONAL FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,210,993	\$ 305,017	\$ 53,827	\$ 1,569,837
Travel and meeting	302,408	48,162	8,499	359,069
Communication and publication	128,047	12,946	2,286	143,279
Depreciation	68,853	11,625	8,942	89,420
Office and building	81,384	13,740	10,569	105,693
Institutional management	193,155	32,610	25,085	250,850
Research and development	1,861	-	-	1,861
Grants committed	6,250	-	-	6,250
	<u>\$ 1,992,951</u>	<u>\$ 424,100</u>	<u>\$ 109,208</u>	<u>\$ 2,526,259</u>