

SOUTHERN EDUCATION FOUNDATION, INC.

FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
YEARS ENDED DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, and the related statements of activities and changes in net assets, functional expenses, 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 ("GAAP"); 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 ("GAAS"). 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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in conformity with GAAP.

Smith & Howard

May 14, 2020

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Cash and Cash Equivalents	\$ 215,645	\$ 2,292,621
Investment Securities	24,716,905	21,825,363
Grants Receivable	250,000	467,500
Pledges Receivable	3,983	4,796
Other Assets	51,054	46,772
Operating Lease Right to Use Asset, Net	880,492	961,843
Property and Equipment, Net	<u>351,732</u>	<u>415,665</u>
	<u>\$ 26,469,811</u>	<u>\$ 26,014,560</u>

LIABILITIES AND NET ASSETS

Accounts Payable and Accrued Liabilities	\$ 165,155	\$ 241,836
Operating Lease Liability	<u>973,116</u>	<u>1,049,639</u>
Total Liabilities	<u>1,138,271</u>	<u>1,291,475</u>
Net Assets		
Without donor restrictions		
Board-designated	8,000,000	8,000,000
Undesignated	<u>5,386,579</u>	<u>3,176,527</u>
	13,386,579	11,176,527
With donor restrictions	<u>11,944,961</u>	<u>13,546,558</u>
Total Net Assets	<u>25,331,540</u>	<u>24,723,085</u>
	<u>\$ 26,469,811</u>	<u>\$ 26,014,560</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, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support:			
Contributions	\$ 27,240	\$ -	\$ 27,240
Grant revenue	-	599,119	599,119
Other revenue	152,743	-	152,743
Net assets released from restrictions	<u>2,269,290</u>	<u>(2,269,290)</u>	<u>-</u>
Total Revenue and Other Support	<u>2,449,273</u>	<u>(1,670,171)</u>	<u>779,102</u>
Expenses:			
Program	3,308,896	-	3,308,896
Management and general	765,899	-	765,899
Fundraising	<u>204,653</u>	<u>-</u>	<u>204,653</u>
Total Expenses	<u>4,279,448</u>	<u>-</u>	<u>4,279,448</u>
Decrease From Operations	<u>(1,830,175)</u>	<u>(1,670,171)</u>	<u>(3,500,346)</u>
Other Changes:			
Investment return, net of fees of \$113,807	419,412	7,117	426,529
Net realized and unrealized gains	<u>3,620,815</u>	<u>61,457</u>	<u>3,682,272</u>
	<u>4,040,227</u>	<u>68,574</u>	<u>4,108,801</u>
Increase (Decrease) in Net Assets	2,210,052	(1,601,597)	608,455
Net Assets:			
Beginning of Year	<u>11,176,527</u>	<u>13,546,558</u>	<u>24,723,085</u>
End of Year	<u>\$ 13,386,579</u>	<u>\$ 11,944,961</u>	<u>\$ 25,331,540</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, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and Other Support:			
Contributions	\$ 62,917	\$ -	\$ 62,917
Grant revenue	-	1,393,933	1,393,933
Other revenue	35,967	-	35,967
Net assets released from restrictions	<u>2,352,695</u>	<u>(2,352,695)</u>	<u>-</u>
 Total Revenue and Other Support	 <u>2,451,579</u>	 <u>(958,762)</u>	 <u>1,492,817</u>
 Expenses:			
Program	3,197,351	-	3,197,351
Management and general	833,789	-	833,789
Fundraising	<u>165,856</u>	<u>-</u>	<u>165,856</u>
 Total Expenses	 <u>4,196,996</u>	 <u>-</u>	 <u>4,196,996</u>
 Decrease From Operations	 <u>(1,745,417)</u>	 <u>(958,762)</u>	 <u>(2,704,179)</u>
 Other Changes:			
Investment return, net of fees of \$120,467	516,371	9,582	525,953
Net realized and unrealized losses	<u>(2,095,304)</u>	<u>(34,965)</u>	<u>(2,130,269)</u>
	<u>(1,578,933)</u>	<u>(25,383)</u>	<u>(1,604,316)</u>
 Decrease in Net Assets	 <u>(3,324,350)</u>	 <u>(984,145)</u>	 <u>(4,308,495)</u>
 Net Assets:			
Beginning of Year	<u>14,500,877</u>	<u>14,530,703</u>	<u>29,031,580</u>
 End of Year	 <u>\$ 11,176,527</u>	 <u>\$ 13,546,558</u>	 <u>\$ 24,723,085</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2019

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 2,379,489	\$ 566,951	\$ 96,510	\$ 3,042,950
Travel and meeting	443,411	39,415	53,349	536,175
Communication and publication	56,994	17,262	14,951	89,207
Depreciation and amortization	51,147	9,590	3,196	63,933
Office and building	130,051	76,648	16,379	223,078
Institutional management	99,067	56,033	20,268	175,368
Research and development	1,890	-	-	1,890
Grants committed	146,847	-	-	146,847
	<u>\$ 3,308,896</u>	<u>\$ 765,899</u>	<u>\$ 204,653</u>	<u>\$ 4,279,448</u>

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

**SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018**

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel	\$ 1,731,477	\$ 489,161	\$ 142,972	\$ 2,363,610
Travel and meeting	464,684	80,419	3,850	548,953
Communication and publication	96,164	37,000	1,556	134,720
Depreciation and amortization	48,478	9,090	3,030	60,598
Office and building	152,332	82,527	14,448	249,307
Institutional management	311,307	135,592	-	446,899
Grants committed	<u>392,909</u>	<u>-</u>	<u>-</u>	<u>392,909</u>
	<u>\$ 3,197,351</u>	<u>\$ 833,789</u>	<u>\$ 165,856</u>	<u>\$ 4,196,996</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Increase (Decrease) in Net Assets	\$ 608,455	\$ (4,308,495)
Adjustments to reconcile increase (decrease) in net assets to net cash required by operating activities:		
Depreciation and amortization	63,933	60,598
Amortization of operating lease	81,351	77,564
Net realized and unrealized (gains) losses	(3,682,272)	2,130,269
Decrease in grants receivable	217,500	1,934,950
(Increase) decrease in pledges receivable	813	(3,976)
(Increase) decrease in other assets	(4,282)	15,442
Increase (decrease) in accounts payable and accrued liabilities	(76,681)	88,254
Decrease in operating lease liability	<u>(76,523)</u>	<u>(1,881)</u>
Net Cash Required by Operating Activities	<u>(2,867,706)</u>	<u>(7,275)</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	-	(109,537)
Proceeds from the sale of investment securities	1,712,711	1,903,602
Purchase of investment securities	<u>(921,981)</u>	<u>(1,119,783)</u>
Net Cash Provided by Investing Activities	<u>790,730</u>	<u>674,282</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(2,076,976)	667,007
Cash and Cash Equivalents at Beginning of Year	<u>2,292,621</u>	<u>1,625,614</u>
Cash and Cash Equivalents at End of Year	<u>\$ 215,645</u>	<u>\$ 2,292,621</u>

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

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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”).

Accounting Pronouncements Adopted

Effective January 1, 2019, the Foundation adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The ASU and all subsequently issued clarifying ASUs replace most existing revenue recognition guidance in GAAP. The ASU also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Foundation adopted the new ASU using the full retrospective approach. Adoption of the ASU did not result in changes to the Foundation’s beginning net asset balance.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update provide a framework for evaluating whether the transfer of assets constitutes a contribution or an exchange transaction. This amendment also provides additional clarification as to whether or not a contribution is conditional. The Foundation adopted ASU 2018-08 in 2019. There was no material impact to the financial position, statement of activities and changes in net assets, or net assets of the Foundation as a result of implementation.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*. The amendments in this update provide a framework for the disclosure requirements that provide financial statement users with information about assets and liabilities measured at fair value in the statement of financial position or disclosed in the notes to the financial statements regarding (1) the valuation techniques and inputs used to develop fair value measurements, including the related judgments and assumptions made, (2) the uncertainty in the fair value measurements as of the reporting date, and (3) how changes in the measurements impact the performance and cash flows of the entity.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets, along with revenues, 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 and reported as follows:

- Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.
- Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that such resources be maintained in perpetuity.

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, 2019 and 2018.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as follows:

Basis of Fair Value Measurement

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, 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.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Total investment assets at fair value classified within Level 3 were \$400,000 as of December 31, 2019, which consists of investments in real estate. There were no assets or liabilities at fair value classified within Level 3 at December 31, 2018.

The table below represents fair value measurement hierarchy of assets at fair value as of December 31:

	<u>Level 1</u>	<u>Level 2</u>	<u>2019</u> <u>Level 3</u>	<u>NAV (*)</u>	<u>Total</u>
Equities	\$16,035,131	\$2,572,187	\$ 400,000	\$ 400,000	\$19,407,318
Fixed income	1,722,816	2,243,205	-	-	3,966,021
Cash and cash equivalents	1,343,566	-	-	-	1,343,566
	<u>\$19,101,513</u>	<u>\$4,815,392</u>	<u>\$ 400,000</u>	<u>\$ 400,000</u>	<u>\$24,716,905</u>

**SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Fair Value Measurement (Continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>2018</u> <u>Level 3</u>	<u>NAV (*)</u>	<u>Total</u>
Equities	\$12,557,121	\$ -	\$ -	\$ -	\$12,557,121
Fixed income	6,780,598	1,003,886	-	-	7,784,484
Real estate	805,655	-	-	-	805,655
Commodities	458,941	-	-	-	458,941
Cash and cash equivalents	<u>219,162</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,162</u>
	<u>\$20,821,477</u>	<u>\$1,003,886</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$21,825,363</u>

(*) Certain investments that are measured at fair value using the Net Asset Value (“NAV”) per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Statement of Financial Position.

The fund valued at the NAV per share was formed with the purpose of generating consistent portfolio returns with limited volatility by investing primarily in a diversified portfolio of senior secured floating rate loans and other credit-related instruments. A member may request, including by exchange, all or part of their interest in the fund be redeemed by delivering to the investment manager a request for redemption not less than 100 days prior to quarter end, the redemption notice date. There were no unfunded commitments associated with this fund.

Level 3 Assets

The table below sets forth a summary of changes in the fair value of the Foundation’s Level 3 assets for the year ended December 31, 2019:

Balance, December 31, 2018	\$ -
Change in fair value	-
Purchases	400,000
Sales	-
Balance, December 31, 2019	<u>\$ 400,000</u>

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Quantitative Information and Fair Value Sensitivities Related to Level 3 Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Foundation's level 3 investments are subject to market risks resulting from changes in the market value of its underlying investments which include various real estate assets.

Endowment Fund

GAAP requires the following financial statement disclosures for the Foundation:

- Classification of net assets

Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions and policies established by the Board.

- Interpretation of Relevant Law

The Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), as enacted in the State of New York, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment, (b) the original value of subsequent gifts to the donor restricted endowment, and (c) accumulations to the donor restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Foundation and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Foundation
- (7) The investment policies of the Foundation

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Fund (Continued)

- Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Foundation, the endowment assets are invested in a manner where the objectives of the Foundation are to preserve, protect, and grow the Foundation's assets, as well as the maintenance of sufficient liquid reserves to meet obligations arising from planned activities.

To accomplish these goals, the Foundation will:

1. Achieve a long-term rate of return on investments that ensures that the growth of the Foundation's assets will be sufficient to offset or exceed inflation, required spending, investment management fees, expenses, and taxes, over a full market cycle.
2. Diversify the portfolio among various asset classes with the goal of reducing volatility of return, and among various issuers of securities to reduce non-systematic, single issuer, principal risk.
3. Maintain liquidity in the portfolio sufficient to meet the Foundation's obligations as they arise over time.
4. Control administrative, investment, and management expenses.

- Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). To achieve its investment objective, it is the general preference and intent of the Foundation to invest Foundation assets through managed accounts and index funds, as opposed to investing directly in individual stocks, bonds or other securities.

**SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Endowment Fund (Continued)

- Strategies Employed for Achieving Objectives (Continued)

Exposure to equity, fixed income, and alternative investment markets will be maintained at all times, recognizing that historical results indicate that equities (primarily common stocks) have higher expected returns than fixed income investments over a long time horizon. It is, however, recognized that the expected higher equity returns are normally accompanied by higher levels of volatility. In addition, exposure to alternative investments will be permitted primarily for their risk mitigating characteristics. Although it is recognized that some alternative asset classes also offer higher returns than available in public market securities (i.e.: primarily private equity investments). In general, the Foundation’s policy is not to be a market timer but rather to take a strategic approach by maintaining exposure to a diversified portfolio at all times.

- Spending Policy

The Foundation has a spending authority approved by the Foundation’s Board of Trustees that authorizes the Foundation to budget for, and make, annual disbursements from its endowment fund for operating expenses or capital expenditures, including any interest or fees, in an amount determined by the Board of Trustees on an annual basis.

Changes in endowment net assets for years ended December 31 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, January 1, 2018	\$ -	\$ 389,573	\$ 389,573
Investment return:			
Investment return, net	-	9,582	9,582
Net depreciation	-	(34,965)	(34,965)
Endowment net assets, December 31, 2018	-	364,190	364,190
Investment return:			
Investment return, net	-	7,117	7,117
Net appreciation	-	61,457	61,457
Endowment net assets, December 31, 2019	<u>\$ -</u>	<u>\$ 432,764</u>	<u>\$ 432,764</u>

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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. 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.

Property and Equipment

Property and equipment are stated at cost. The Foundation capitalizes all expenditures in excess of \$5,000 for property and equipment and with an estimated useful life of two years or more. Furniture and fixtures are being depreciated on a straight-line basis over a five year estimated useful life. Leasehold improvements are depreciated over the shorter of the useful life of the improvement or the term of the Foundation's lease.

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 and changes in net assets. 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.

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, 2016.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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.

NOTE 2 – GRANTS RECEIVABLE

Grants receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Mary Reynolds Babcock	\$ 100,000	\$ -
Kendeda Fund	80,000	-
Wallace Foundation	50,000	-
Hill Snowden Foundation	20,000	-
Hewlett Foundation	-	400,000
National Public Education Support Fund	-	42,500
New Venture Fund	-	25,000
	<u>\$ 250,000</u>	<u>\$ 467,500</u>

All outstanding grants are expected to be collected during 2020.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31:

	<u>2019</u>	<u>2018</u>
Leasehold improvements	\$ 318,053	\$ 318,053
Furniture and fixtures	160,641	160,641
	478,694	478,694
Less accumulated depreciation	(126,962)	(63,029)
Total	<u>\$ 351,732</u>	<u>\$ 415,665</u>

Depreciation expense totaled \$63,933 and \$60,598 for the years ended December 31, 2019 and 2018, respectively.

SOUTHERN EDUCATION FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 4 – 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, 2019 and 2018, contributions to the plan totaled \$152,628 and \$115,489, respectively. The pension contributions have been allocated to the various expense classifications on the same basis as personnel costs.

NOTE 5 – OPERATING LEASE

The Foundation has an operating lease for its office space. At lease inception, the Foundation recognized an Operating Lease Liability with a corresponding Operating Lease Right of Use ("ROU") Asset of the same amount based on the present value of future minimum rental payments of this lease. The Foundation has elected to apply the short-term lease exception to all leases of one year or less.

As of December 31, 2019, the Operating Lease ROU Asset has a balance of \$880,492, net of accumulated amortization of \$167,099, and an Operating Lease Liability of \$973,116, which are included in the accompanying statement of financial position. The discount rate used for leases is the Foundation's estimated borrowing rate of 4.50%.

The office lease provides for one five-year option to renew with nine months advanced notice to the landlord. The option to renew the office lease was not considered when assessing the value of the ROU asset because the Foundation was not reasonably certain that it will exercise its option to renew the lease. The office lease is scheduled to go through July 2028.

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NOTE 5 – OPERATING LEASE (Continued)

Future maturities under the Operating Lease Liability are as follows for the years ended December 31:

2020	\$ 125,242
2021	128,385
2022	131,583
2023	134,877
2024	138,226
Thereafter	<u>524,605</u>
	1,182,918
Portion representing interest	<u>(209,802)</u>
	<u>\$ 973,116</u>

Total lease expense for the years ended December 31, 2019 and 2018 was \$132,304 and \$130,635, respectively.

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include investments to be held in perpetuity totaling \$312,400 at December 31, 2019 and 2018. The earnings from these investments are for the purpose of funding fellowships of the Foundation.

Net assets subject to spending and appropriation policies totaled \$11,632,561 and \$13,234,158 at December 31, 2019 and 2018, respectively, and are available to support the Foundation's various research, analysis, advocacy, technical assistance, and outreach programs.

Net assets with donor restrictions totaling \$2,269,290 and \$2,352,695 were released from restrictions during the years ended December 31, 2019 and 2018, respectively, in accordance with the Foundation's applicable spending and appropriation policies.

NOTE 7 – RELATED PARTY

During the years ended December 31, 2019 and 2018, the Foundation received approximately \$50,000 and \$950,000, respectively, of its grant revenue from an organization associated with the Foundation's former President.

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NOTE 8 – CONCENTRATIONS

The Foundation depends heavily on contributions and grants for its revenue. During the year ended December 31, 2019, the Foundation received approximately 62% of its grant revenue from three organizations. During the year ended December 31, 2018, the Foundation received approximately 64% of its grant revenue from one organization. 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.

NOTE 9 – LIQUIDITY AND AVAILABILITY OF RESOURCES

For purposes of analyzing resources available to meet general expenditures in 2020 and 2019, the Foundation considers cash and cash equivalents, grants receivable, pledges receivable, and investments that will be available in 2020 and 2019, unless restricted by the endowment spending policy or financial assets that are Board designated. Financial assets available for general expenditures, within one year are as follows at December 31:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 215,645	\$ 2,292,621
Grants receivable	250,000	467,500
Pledges receivable	3,983	4,796
Investment securities	<u>24,716,905</u>	<u>21,825,363</u>
Financial assets, at year end	25,186,533	24,590,280
Less those unavailable for general expenditures within one year, due to:		
Endowment funds not appropriated for spending in the following year	(432,764)	(364,190)
Board designated net assets	(8,000,000)	(8,000,000)
Net assets with donor restrictions subject to the Foundation’s spending policies	<u>(11,512,197)</u>	<u>(13,182,368)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,241,572</u>	<u>\$ 3,043,722</u>

SOUTHERN EDUCATION FOUNDATION, INC.
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NOTE 9 – LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)

The Foundation is substantially supported by grants with grantor restrictions for the use of the funds. Therefore, certain financial assets may not be available for general expenditures. As part of the Foundation's liquidity management, funding that will not be used to cover expenditures in the current year will be invested in short term assets. In addition, any budgeted expenditures not covered by a grant will be financed by liquidating financial assets without donor restrictions in the Foundation's long term investment portfolio. The annual amount of the transfers from the portfolio are determined during the budget process and approved by the Board of Trustees. In the event of an unanticipated liquidity need, the Board designated net assets may be liquidated upon approval from the Board of Trustees.

NOTE 10 – 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.

As a result of liquidity volatility experienced due to COVID-19 since December 31, 2019, the market value of the Foundation's investments has decreased by approximately 8% through April 30, 2020. The future financial impact to the Foundation caused by disruption of normal business operations from COVID-19 cannot be determined through the date of this report. However, it is reasonably possible that changes in financial risks in the near term could occur which could result in a material change to the subsequent financial statements.

In May 2020, the Foundation obtained a Small Business Administration loan under the Paycheck Protection Program ("PPP") in the amount of \$360,625. The PPP loan bears interest at 1% and beginning in November 2020, requires monthly payments of principal and interest through May 2022, at which time the outstanding balance is due in full. Under the terms of Coronavirus Aid, Relief, and Economic Securities Act (the "Cares Act"), the Foundation may apply for PPP loan proceeds used within eight weeks of funding receipt to be forgiven with the lending institution, provided the proceeds are used to cover certain payroll and other expenses as defined by the Cares Act.