

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**  
**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. (the "Foundation") (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year after the date of this report.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements can arise from fraud or error and are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

## **Auditors' Responsibilities for the Audit of the Financial Statements (Continued)**

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Smith and Howard PC*

May 23, 2023

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

**ASSETS**

|                             | <u><b>2022</b></u>          | <u><b>2021</b></u>          |
|-----------------------------|-----------------------------|-----------------------------|
| Cash and Cash Equivalents   | \$ 626,541                  | \$ 3,181,869                |
| Investment Securities       | 27,702,753                  | 26,561,808                  |
| Grants Receivable           | 1,244,413                   | 2,000,000                   |
| Accounts Receivable         | 34,037                      | -                           |
| Other Assets                | 23,326                      | 23,326                      |
| Right-of-Use Asset          | 613,722                     | 706,747                     |
| Property and Equipment, Net | <u>159,933</u>              | <u>223,866</u>              |
|                             | <u><u>\$ 30,404,725</u></u> | <u><u>\$ 32,697,616</u></u> |

**LIABILITIES AND NET ASSETS**

|  |                             |                             |
|--|-----------------------------|-----------------------------|
| Accounts Payable and Accrued Liabilities | \$ 280,085                  | \$ 75,923                   |
| Operating Lease Liability                | 702,209                     | 799,792                     |
| Paycheck Protection Program Loan         | -                           | 306,213                     |
| Deferred Revenue                         | <u>200,000</u>              | <u>-</u>                    |
| Total Liabilities                        | <u>1,182,294</u>            | <u>1,181,928</u>            |
| <b>Net Assets</b>                        |                             |                             |
| Without donor restrictions               |                             |                             |
| Board-designated                         | 8,000,000                   | 8,000,000                   |
| Undesignated                             | <u>8,517,736</u>            | <u>9,831,927</u>            |
|  | 16,517,736                  | 17,831,927                  |
| With donor restrictions                  | <u>12,704,695</u>           | <u>13,683,761</u>           |
| Total Net Assets                         | <u>29,222,431</u>           | <u>31,515,688</u>           |
|  | <u><u>\$ 30,404,725</u></u> | <u><u>\$ 32,697,616</u></u> |

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED DECEMBER 31, 2022**

|   | <b><u>Without Donor</u></b><br><b><u>Restrictions</u></b> | <b><u>With Donor</u></b><br><b><u>Restrictions</u></b> | <b><u>Total</u></b>  |
|---|---|--|----------------------|
| Revenue and Other Support:                            |   |  |                      |
| Contributions   | \$ 6,016,329  | \$ 75,000  | \$ 6,091,329         |
| Grant revenue   | 974,718   | 184,200  | 1,158,918            |
| Net assets released from restrictions                 | <u>1,127,913</u>  | <u>(1,127,913)</u>                                     | <u>-</u>             |
| Total Revenue and Other Support                       | <u>8,118,960</u>  | <u>(868,713)</u>                                       | <u>7,250,247</u>     |
| Expenses:   |   |  |                      |
| Program   | 2,626,806   | -  | 2,626,806            |
| Management and general                                | 1,425,493   | -  | 1,425,493            |
| Fundraising   | <u>86,930</u>   | <u>-</u>   | <u>86,930</u>        |
| Total Expenses  | <u>4,139,229</u>  | <u>-</u>   | <u>4,139,229</u>     |
| Increase (Decrease) From Operations                   | <u>3,979,731</u>  | <u>(868,713)</u>                                       | <u>3,111,018</u>     |
| Other Changes:  |   |  |                      |
| Investment return, net of fees of \$128,281           | 618,585   | 21,465   | 640,050              |
| Net realized and unrealized losses                    | (6,218,720)   | (131,818)  | (6,350,538)          |
| Paycheck protection program loan forgiveness (Note 8) | <u>306,213</u>  | <u>-</u>   | <u>306,213</u>       |
|   | <u>(5,293,922)</u>  | <u>(110,353)</u>                                       | <u>(5,404,275)</u>   |
| Change in Net Assets                                  | (1,314,191)   | (979,066)  | (2,293,257)          |
| Net Assets:   |   |  |                      |
| Beginning of Year                                     | <u>17,831,927</u>   | <u>13,683,761</u>                                      | <u>31,515,688</u>    |
| End of Year   | <u>\$ 16,517,736</u>                                      | <u>\$ 12,704,695</u>                                   | <u>\$ 29,222,431</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, 2021**

|   | <u>Without Donor<br/>Restrictions</u> | <u>With Donor<br/>Restrictions</u> | <u>Total</u>         |
|---|---------------------------------------|------------------------------------|----------------------|
| Revenue and Other Support:                            |                                       |                                    |                      |
| Contributions   | \$ 11,225                             | \$ -                               | \$ 11,225            |
| Grant revenue   | 1,617,000                             | 2,000,000                          | 3,617,000            |
| Other revenue   | 28,818                                | -                                  | 28,818               |
| Net assets released from restrictions                 | <u>387,972</u>                        | <u>(387,972)</u>                   | <u>-</u>             |
| Total Revenue and Other Support                       | <u>2,045,015</u>                      | <u>1,612,028</u>                   | <u>3,657,043</u>     |
| Expenses:   |                                       |                                    |                      |
| Program   | 954,923                               | -                                  | 954,923              |
| Management and general                                | 1,191,358                             | -                                  | 1,191,358            |
| Fundraising   | <u>461,400</u>                        | <u>-</u>                           | <u>461,400</u>       |
| Total Expenses  | <u>2,607,681</u>                      | <u>-</u>                           | <u>2,607,681</u>     |
| Increase (Decrease) From Operations                   | <u>(562,536)</u>                      | <u>1,611,898</u>                   | <u>1,049,362</u>     |
| Other Changes:  |                                       |                                    |                      |
| Investment return, net of fees of \$124,477           | 430,872                               | 9,029                              | 439,901              |
| Net realized and unrealized gains                     | 3,115,009                             | 65,210                             | 3,180,219            |
| Paycheck protection program loan forgiveness (Note 8) | <u>360,625</u>                        | <u>-</u>                           | <u>360,625</u>       |
|   | <u>3,906,506</u>                      | <u>74,239</u>                      | <u>3,980,745</u>     |
| Increase in Net Assets                                | 3,343,970                             | 1,686,137                          | 5,030,107            |
| Net Assets:   |                                       |                                    |                      |
| Beginning of Year                                     | <u>14,487,957</u>                     | <u>11,997,624</u>                  | <u>26,485,581</u>    |
| End of Year   | <u>\$ 17,831,927</u>                  | <u>\$ 13,683,761</u>               | <u>\$ 31,515,688</u> |

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2022**

|                               | <u>Program</u>      | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|-------------------------------|---------------------|-----------------------------------|--------------------|---------------------|
| Personnel                     | \$ 1,255,585        | \$ 808,553                        | \$ 65,847          | \$ 2,129,985        |
| Program consultants           | 876,391             | 36,388                            | -                  | 912,779             |
| Travel and meeting            | 138,289             | 78,287                            | 2,434              | 219,010             |
| Communication and publication | 70,128              | 19,258                            | 946                | 90,332              |
| Depreciation and amortization | -                   | 63,933                            | -                  | 63,933              |
| Office and building           | 21,783              | 185,246                           | 665                | 207,694             |
| Institutional management      | 114,118             | 233,828                           | 17,038             | 364,984             |
| Research and development      | 512                 | -                                 | -                  | 512                 |
| Grants committed              | <u>150,000</u>      | <u>-</u>                          | <u>-</u>           | <u>150,000</u>      |
|                               | <u>\$ 2,626,806</u> | <u>\$ 1,425,493</u>               | <u>\$ 86,930</u>   | <u>\$ 4,139,229</u> |

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



**SOUTHERN EDUCATION FOUNDATION, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED DECEMBER 31, 2021**

|                               | <u>Program</u>    | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|-------------------------------|-------------------|-----------------------------------|--------------------|---------------------|
| Personnel                     | \$ 743,192        | \$ 821,302                        | \$ 123,184         | \$ 1,687,678        |
| Program consultants           | 84,132            | 12,320                            | 22,000             | 118,452             |
| Travel and meeting            | 29,550            | 14,088                            | -                  | 43,638              |
| Communication and publication | 30,107            | 20,317                            | 1,117              | 51,541              |
| Depreciation and amortization | -                 | 63,933                            | -                  | 63,933              |
| Office and building           | 14,038            | 176,172                           | 251                | 190,461             |
| Institutional management      | 48,341            | 82,576                            | 314,848            | 445,765             |
| Bad debts expense             | -                 | 650                               | -                  | 650                 |
| Research and development      | 563               | -                                 | -                  | 563                 |
| Grants committed              | 5,000             | -                                 | -                  | 5,000               |
|                               | <u>\$ 954,923</u> | <u>\$ 1,191,358</u>               | <u>\$ 461,400</u>  | <u>\$ 2,607,681</u> |

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**STATEMENT OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2022 AND 2021**

|   | <u><b>2022</b></u> | <u><b>2021</b></u>  |
|---|--------------------|---------------------|
| Cash Flows from Operating Activities:   |                    |                     |
| Increase (Decrease) in Net Assets   | \$ (2,293,257)     | \$ 5,030,107        |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (required) by operating activities: |                    |                     |
| Depreciation and amortization   | 63,933             | 63,933              |
| Net realized and unrealized gains   | 6,233,618          | (3,180,219)         |
| Bad debts expense   | -                  | 650                 |
| Paycheck protection program loan forgiveness (Note 8)   | (306,213)          | (360,625)           |
| Operating lease expense   | 93,025             | 88,815              |
| Payments on operating lease liability obligations   | (97,583)           | (90,176)            |
| Changes in operating assets and liabilities:  |                    |                     |
| Grants receivable   | 755,587            | (1,820,650)         |
| Accounts receivable   | (34,037)           | 650                 |
| Other assets  | -                  | 23,985              |
| Accounts payable and accrued liabilities  | 204,162            | (16,742)            |
| Unearned revenue  | 200,000            | -                   |
|   | <u>4,819,235</u>   | <u>(260,272)</u>    |
| Net Cash Provided (Required) by Operating Activities  |                    |                     |
| Cash Flows from Investing Activities:   |                    |                     |
| Proceeds from the sale of investment securities   | 198,541            | 795,639             |
| Purchase of investment securities   | <u>(7,573,104)</u> | <u>(439,900)</u>    |
|   | <u>(7,374,563)</u> | <u>355,739</u>      |
| Net Cash Provided (Required) by Investing Activities  |                    |                     |
| Cash Flows from Financing Activities:   |                    |                     |
| Proceeds from paycheck protection program loan  | <u>-</u>           | <u>306,213</u>      |
|   | <u>-</u>           | <u>306,213</u>      |
| Net Cash Provided by Financing Activities   |                    |                     |
| Change in Cash and Cash Equivalents   | (2,555,328)        | 401,680             |
| Cash and Cash Equivalents at Beginning of Year  | <u>3,181,869</u>   | <u>2,780,189</u>    |
| Cash and Cash Equivalents at End of Year  | <u>\$ 626,541</u>  | <u>\$ 3,181,869</u> |

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

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**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”).

Revenue Recognition

Contributions and grants (including unconditional promises to give, i.e., pledges) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Conditional pledges, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Management routinely monitors the collectability of grants and contributions receivable and has deemed no allowance for uncollectible amounts necessary at December 31, 2022 and 2021.

The Foundation recognizes contributions and grants as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor-imposed restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and presented in the accompanying statement of activities and changes in net assets as net assets released from restrictions.

A portion of the Foundation’s revenue is derived from contracts and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has met targeted goals and/or incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to achieving these targeted goals and/or incurring qualifying expenditures are reported as deferred revenue in the accompanying statement of financial position. Deferred revenue totaled \$200,000 at December 31, 2022.

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.

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Net Assets (Continued)

- 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, 2022 and 2021.

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.

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Fair Value Measurement (Continued)

Total investment assets at fair value classified within Level 3 were \$744,958 and \$491,818 as of December 31, 2022 and 2021, respectively, which consists of investments in real estate.

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

|                           | <u>2022</u>          |                     |                   |                     |                      |
|---------------------------|----------------------|---------------------|-------------------|---------------------|----------------------|
|                           | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>    | <u>NAV (*)</u>      | <u>Total</u>         |
| Equities                  | \$21,686,001         | \$ 1,697,078        | \$ 744,958        | \$ 1,126,378        | \$ 25,254,415        |
| Cash and cash equivalents | <u>2,448,338</u>     | <u>-</u>            | <u>-</u>          | <u>-</u>            | <u>2,448,338</u>     |
|                           | <u>\$ 24,134,339</u> | <u>\$ 1,697,078</u> | <u>\$ 744,958</u> | <u>\$ 1,126,378</u> | <u>\$ 27,702,753</u> |

  

|                           | <u>2021</u>          |                     |                   |                     |                      |
|---------------------------|----------------------|---------------------|-------------------|---------------------|----------------------|
|                           | <u>Level 1</u>       | <u>Level 2</u>      | <u>Level 3</u>    | <u>NAV (*)</u>      | <u>Total</u>         |
| Equities                  | \$22,205,776         | \$ 2,169,879        | \$ 491,818        | \$ 1,055,791        | \$ 25,923,264        |
| Cash and cash equivalents | <u>638,544</u>       | <u>-</u>            | <u>-</u>          | <u>-</u>            | <u>638,544</u>       |
|                           | <u>\$ 22,844,320</u> | <u>\$ 2,169,879</u> | <u>\$ 491,818</u> | <u>\$ 1,055,791</u> | <u>\$ 26,561,808</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 Apollo Credit Strategies 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.

The Private Group Private Equity Fund valued at the NAV per share was formed with the purpose of offering investors periodic liquidity through monthly subscriptions and quarterly tenders, requiring one draw-down of capital at point of initial investment instead of ongoing capital calls. 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. Although not guaranteed in any given quarter, redemptions are anticipated. There were no unfunded commitments associated with this fund.

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**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 New York Prudent Management of Institutional Funds Act ("NYPMIFA"), 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 NYPMIFA.

In accordance with NYPMIFA, 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, 2022 AND 2021**

**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, 2022 AND 2021**

**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.

- Underwater Endowment Funds

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level the donor requires the Foundation to retain as a fund of perpetual duration. At December 31, 2022 and 2021, no deficiencies of this nature exist.

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

|  | <u>Without Donor</u><br><u>Restrictions</u> | <u>With Donor</u><br><u>Restrictions</u> | <u>Total</u>      |
|--|---|--|-------------------|
| Endowment net assets,<br>January 1, 2021   | \$ -  | \$ 486,790                               | \$ 486,790        |
| Investment return:                         |   |  |                   |
| Investment return, net                     | -   | 9,029                                    | 9,029             |
| Net appreciation                           | -   | 65,210                                   | 65,210            |
| Endowment net assets,<br>December 31, 2021 | -   | 561,029                                  | 561,029           |
| Investment return:                         |   |  |                   |
| Investment return, net                     | -   | 21,465                                   | 21,465            |
| Net depreciation                           | -   | (131,818)                                | (131,818)         |
| Endowment net assets,<br>December 31, 2022 | <u>\$ -</u>                                 | <u>\$ 450,676</u>                        | <u>\$ 450,676</u> |



**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Risks and Uncertainties

Financial instruments that potentially subject the Foundation assets to significant concentrations of credit risk consist principally of cash and cash equivalents, grants and pledges receivable and investment securities. The Foundation places its cash and cash equivalents with high quality credit institutions. Management continually monitors receivable balances and believes that its exposure to receivables credit risk is limited. 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, 2019.

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.

**SOUTHERN EDUCATION FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

**NOTE 2 – GRANTS RECEIVABLE**

Grants receivable consist of the following at December 31:

|                             | <u>2022</u>         | <u>2021</u>         |
|-----------------------------|---------------------|---------------------|
| Conrad N. Hilton Foundation | \$ 900,000          | \$ 1,200,000        |
| America Achieves, Inc.      | 200,000             | 800,000             |
| EAC                         | 144,413             | -                   |
|                             | <u>\$ 1,244,413</u> | <u>\$ 2,000,000</u> |

The estimated future cash collections at December 31 are as follows:

|                         | <u>2022</u>         | <u>2021</u>         |
|-------------------------|---------------------|---------------------|
| Due in less than 1 year | \$ 644,413          | \$ 1,100,000        |
| Due in 1-5 years        | 600,000             | 900,000             |
|                         | <u>\$ 1,244,413</u> | <u>\$ 2,000,000</u> |

**NOTE 3 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at December 31:

|                               | <u>2022</u>       | <u>2021</u>       |
|-------------------------------|-------------------|-------------------|
| Leasehold improvements        | \$ 318,053        | \$ 318,053        |
| Furniture and fixtures        | 160,641           | 160,641           |
|                               | <u>478,694</u>    | <u>478,694</u>    |
| Less accumulated depreciation | (318,761)         | (254,828)         |
| Total                         | <u>\$ 159,933</u> | <u>\$ 223,866</u> |

Depreciation expense totaled \$63,933 for the years ended December 31, 2022 and 2021.

**SOUTHERN EDUCATION FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2022 AND 2021**

**NOTE 4 – DEFINED CONTRIBUTION 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, 2022 and 2021, contributions to the plan totaled \$151,700 and \$117,516, 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 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, 2022, the ROU Asset has a balance of \$613,722, net of accumulated amortization of \$433,869, and an Operating Lease Liability of \$702,209, 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.

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

|                               |                   |
|-------------------------------|-------------------|
| 2023                          | \$ 134,877        |
| 2024                          | 138,226           |
| 2025                          | 141,677           |
| 2026                          | 145,229           |
| 2027                          | 148,878           |
| Thereafter                    | <u>88,821</u>     |
|                               | 797,708           |
| Portion representing interest | <u>(95,499)</u>   |
|                               | <u>\$ 702,209</u> |

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions include investments to be held in perpetuity totaling \$450,676 and \$561,029, which include accumulated earnings that are subject to spending policies and appropriation, of \$138,276 and \$248,629, at December 31, 2022 and 2021, respectively. The earnings from these investments are for the purpose of funding fellowships of the Foundation.

Net assets totaling \$12,254,019 and \$13,122,732 at December 31, 2022 and 2021, respectively, and are available to support the Foundation's various research, analysis, advocacy, technical assistance, and outreach programs.

Net assets with donor restrictions totaling \$1,127,913 and \$387,972 were released from restrictions during the years ended December 31, 2022 and 2021, respectively, by incurring expenses satisfying the restricted purposes specified by donors or grantors.

**NOTE 7 – CONCENTRATIONS**

The Foundation depends heavily on contributions and grants for its revenue. During the year ended December 31, 2022, the Foundation received approximately 79% of its grant revenue from one organization. During the year ended December 31, 2021, the Foundation received approximately 81% of its grant revenue from four 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.

**NOTE 8 – PAYCHECK PROTECTION PROGRAM LOAN**

In May 2020, the Foundation obtained a Small Business Administration ("SBA") loan under the Paycheck Protection Program ("PPP") in the amount of \$360,625. During 2021, the Foundation obtained complete loan forgiveness and included the amount in other changes in the statement of activities and changes in net assets at December 31, 2021.

In June 2021, the Foundation obtained a second Small Business Administration ("SBA") loan under the Paycheck Protection Program ("PPP") in the amount of \$306,213. The PPP loan bears interest at 1% and may require repayment under certain circumstances. Under the terms of Coronavirus Aid, Relief, and Economic Securities Act (the "Cares Act") and the Paycheck Protection Program Flexibility Act ("PPFPA"), the Foundation may apply with the lending institution for PPP loan proceeds used to cover certain payroll and other expenses as defined by the CARES Act and PPFPA. Initial repayments of the loan are deferred until the date the SBA remits the loan forgiveness funds to the lending institution, or until 10 months after the end of the forgiveness coverage period if the Foundation does not apply for forgiveness. During 2022, the Foundation obtained complete loan forgiveness and included the amount in other changes in the statement of activities and changes in net assets at December 31, 2022.

**SOUTHERN EDUCATION FOUNDATION, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2022 AND 2021**

**NOTE 9 – LIQUIDITY AND AVAILABILITY OF RESOURCES**

For purposes of analyzing resources available to meet general expenditures in 2022 and 2021, the Foundation considers cash and cash equivalents, grants receivable, pledges receivable, and investments that will be available in 2022 and 2021, 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>2022</u>         | <u>2021</u>          |
|---|---------------------|----------------------|
| Cash and cash equivalents   | \$ 626,541          | \$ 3,181,869         |
| Investment securities   | 27,702,753          | 26,561,808           |
| Grants receivable   | 1,244,413           | 2,000,000            |
| Pledges receivable  | <u>34,037</u>       | <u>-</u>             |
| <br>  |                     |                      |
| Financial assets, at year end   | 29,607,744          | 31,743,677           |
| <br>  |                     |                      |
| Less those unavailable for general expenditures<br>within one year, due to:               |                     |                      |
| Board designated net assets   | (8,000,000)         | (8,000,000)          |
| Endowment funds not appropriated for spending<br>in the following year                    | (450,676)           | (561,029)            |
| Net assets with donor restrictions subject<br>to the Foundation's spending policies       | <u>(12,254,019)</u> | <u>(13,122,732)</u>  |
| <br>  |                     |                      |
| Financial assets available to meet cash needs for<br>general expenditures within one year | <u>\$ 8,903,049</u> | <u>\$ 10,059,916</u> |

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.