



**SOUTHERN CENTER FOR
INTERNATIONAL STUDIES, INC.**

**REPORT ON AUDITS OF
FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED
JUNE 30, 2013 AND 2012**

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
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JUNE 30, 2013 AND 2012

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**Jones and Kolb
Certified Public Accountants
Atlanta, Georgia**

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
The Southern Center for International Studies, Inc.

We have audited the accompanying financial statements of the Southern Center for International Studies, Inc. (the "Center"), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and 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

The Center's 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.

Auditor's 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 from 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 auditor's 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 entity'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 entity'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 the Center as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones and Kolb

February 28, 2014

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2013 AND 2012

ASSETS

	2013	2012
Cash	\$ 493,012	\$ -
Pledge receivable, net	334,150	470,049
Other assets	900	1,993
Accrued income	-	26,452
Equipment, net of accumulated depreciation of \$5,723 and \$1,165 at June 30, 2013 and 2012, respectively	28,634	10,976
Program materials, net	407,307	458,018
Trust life interest	497,789	502,495
Total assets	\$ 1,761,792	\$ 1,469,983

LIABILITIES AND NET ASSETS

Accounts payable to officers	\$ 842	\$ 39,141
Accounts payable and accrued expenses	66,703	209,207
Deferred revenue	27,869	-
Loans from officers	58,516	427,130
Total liabilities	153,930	675,478
NET ASSETS		
Unrestricted net assets	744,329	(269,577)
Temporarily restricted net assets	837,533	1,038,082
Permanently restricted net assets	26,000	26,000
Total net assets	1,607,862	794,505
Total liabilities and net assets	\$ 1,761,792	\$ 1,469,983

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

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
STATEMENT OF ACTIVITIES AND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND GAINS:				
Contributions	\$ 1,373,689	\$ 142,007	\$ -	\$ 1,515,696
In-kind contributions	11,598	-	-	11,598
Other income	51,411	-	-	51,411
Change in value of split-interest agreement	-	(4,706)	-	(4,706)
Net assets released from restrictions	<u>337,850</u>	<u>(337,850)</u>	<u>-</u>	<u>-</u>
Total support, revenues, and gains	<u>1,774,548</u>	<u>(200,549)</u>	<u>-</u>	<u>1,573,999</u>
EXPENSES:				
Programs:				
UGA archive project	154,637	-	-	154,637
Secretaries of Defense XVI	320,706	-	-	320,706
Other programs	<u>62,810</u>	<u>-</u>	<u>-</u>	<u>62,810</u>
Total program expenses	538,153	-	-	538,153
General and administrative	163,395	-	-	163,395
Fundraising	<u>59,094</u>	<u>-</u>	<u>-</u>	<u>59,094</u>
Total expenses	<u>760,642</u>	<u>-</u>	<u>-</u>	<u>760,642</u>
INCREASE (DECREASE) IN NET ASSETS	1,013,906	(200,549)	-	813,357
NET ASSETS				
Beginning of year	<u>(269,577)</u>	<u>1,038,082</u>	<u>26,000</u>	<u>794,505</u>
NET ASSETS				
End of year	<u><u>\$ 744,329</u></u>	<u><u>\$ 837,533</u></u>	<u><u>\$ 26,000</u></u>	<u><u>\$ 1,607,862</u></u>

The accompanying notes to financial statements
are an integral part of this statement.

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
STATEMENT OF ACTIVITIES AND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT, REVENUES, AND GAINS:				
Contributions	\$ 131,299	\$ 562,349	\$ -	\$ 693,648
In-kind contributions	104,640	-	-	104,640
Other income	38,907	-	-	38,907
Change in value of split-interest agreement	-	(11,317)	-	(11,317)
Net assets released from restrictions	<u>225,089</u>	<u>(125,089)</u>	<u>(100,000)</u>	<u>-</u>
Total support, revenues, and gains	<u>499,935</u>	<u>425,943</u>	<u>(100,000)</u>	<u>825,878</u>
EXPENSES:				
Programs:				
UGA archive project	137,327	-	-	137,327
Secretaries of Defense XVI	36,246	-	-	36,246
China/Taiwan	35,450	-	-	35,450
Other programs	<u>157,223</u>	<u>-</u>	<u>-</u>	<u>157,223</u>
Total program expenses	366,246	-	-	366,246
General and administrative	181,188	-	-	181,188
Fundraising	<u>19,625</u>	<u>-</u>	<u>-</u>	<u>19,625</u>
Total expenses	<u>567,059</u>	<u>-</u>	<u>-</u>	<u>567,059</u>
INCREASE (DECREASE) IN NET ASSETS	(67,124)	425,943	(100,000)	258,819
NET ASSETS				
Beginning of year	<u>(202,453)</u>	<u>612,139</u>	<u>126,000</u>	<u>535,686</u>
NET ASSETS				
End of year	<u>\$ (269,577)</u>	<u>\$ 1,038,082</u>	<u>\$ 26,000</u>	<u>\$ 794,505</u>

The accompanying notes to financial statements
are an integral part of this statement.

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 813,357	\$ 258,819
Adjustments to reconcile changes in net assets to net cash provided by (used in) by operations:		
Depreciation	4,558	1,165
Change in value of split-interest agreement	4,706	11,317
(Increase) decrease in pledge receivable	135,899	(470,049)
(Increase) decrease in other assets	1,093	2,003
(Increase) decrease in accrued income	26,452	(1,259)
(Increase) decrease in program materials	50,711	150,145
Increase (decrease) in accounts payable to officers	(38,299)	34,052
Increase (decrease) in accounts payable and accrued expenses	(142,504)	(34,944)
Increase (decrease) in deferred revenue	27,869	-
Total adjustments	70,485	(307,570)
Net cash provided by (used in) operating activities	883,842	(48,751)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(22,216)	(8,304)
Net cash provided by (used in) investing activities	(22,216)	(8,304)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans from officers to the Center	-	62,000
Payments on loans made by officers to the Center	(368,614)	(7,000)
Net cash provided by (used in) financing activities	(368,614)	55,000
NET INCREASE (DECREASE) IN CASH	493,012	(2,055)
CASH		
Beginning of year	-	2,055
CASH		
End of year	\$ 493,012	\$ -

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

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Southern Center for International Studies, Inc. (the "Center") is an educational organization that conducts programs and produces educational materials related to international and public affairs. The Center's activities are primarily funded through contributions.

B. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of support and revenues and expenses during the reporting period. Actual results could differ from those estimates.

C. The Center classifies net assets, revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions using three classifications: unrestricted, temporarily restricted and permanently restricted. These three classifications are defined as follows:

Unrestricted net assets are not restricted by donors or the donor-imposed restrictions have expired.

Temporarily restricted net assets are those net assets subject to donor-imposed restrictions that permit the Center to use or expend the donated assets as specified and are satisfied either by the passage of time and/or by actions of the Center.

Permanently restricted net assets are those net assets subject to donor-imposed restrictions that stipulate resources be maintained permanently, but permit the Center to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes.

The Center records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Net Assets as net assets released from restrictions.

Contributions that the donor requires to be used to acquire long-lived assets are reported as temporarily restricted contributions. Once the asset has been placed in service, the Center reflects the expiration of the donor-imposed restriction as net assets released from restrictions.

D. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows using a discount rate of 3.0%. Due to the nature of the promise to give, and the creditworthiness of the donor, management considers the

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

pledge receivable to be fully collectible. Accordingly, no allowance for doubtful pledges was considered necessary at June 30, 2013 and 2012.

E. Purchased property and equipment are capitalized at cost. Donated assets are capitalized at the fair market value of the asset on the date of contribution. Additions and replacements are charged to property accounts, while repairs and maintenance are charged to expense as incurred. Depreciation is recorded on the straight-line method over 5-15 years.

F. The Center is exempt from income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 and is currently considered a publicly supported charity. Regardless, the Center is subject to Section 511(a) for income taxes on unrelated business income. The Center had no tax liability as of June 30, 2013 and 2012. The Center has evaluated all tax positions taken on its returns and believes that all positions are more likely-than-not to be sustained upon examination. Currently, the 2010, 2011 and 2012 tax years are open and subject to examination by the Internal Revenue Service. However, the Center is not currently under audit nor has the Center been contacted by the Internal Revenue Service.

G. Subsequent events have been evaluated by management through February 28, 2014, the date these financial statements were available to be issued.

2. PLEDGE RECEIVABLE

The pledge receivable at June 30, 2013 and 2012 is due as follows:

	<u>2013</u>	<u>2012</u>
Receivable in less than one year	\$ 150,000	\$ 150,000
Receivable in one to three years	<u>200,000</u>	<u>350,000</u>
Pledge receivable	350,000	500,000
Less discount to net present value	<u>(15,850)</u>	<u>(29,951)</u>
Pledge receivable, net	<u><u>\$ 334,150</u></u>	<u><u>\$ 470,049</u></u>

3. FAIR VALUE MEASUREMENTS

U.S. generally accepted accounting principles establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Level 1 within the hierarchy states that valuations are based on unadjusted quoted market prices for identical assets in active markets. Level 2 within the hierarchy states that valuations are based on observable inputs other

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than Level 1 prices, such as quoted prices for similar assets, quoted prices in inactive markets and other inputs that may be corroborated by observable market data. As of June 30, 2013 and 2012, the only asset measured at fair value on a recurring basis in periods subsequent to initial recognition is the trust life interest. The trust life interest is classified within Level 3 of the valuation hierarchy (See Note 10), and it is valued using a discounted cash flow model, based on anticipated distributions and current risk-free interest rates. The interest rate used to discount the cash flows as of June 30, 2013 and 2012 was 1.07%.

The table below sets forth a summary of changes in the fair value of the Center's Level 3 asset for the years ended June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Balance, beginning of year	\$ 502,495	\$ 513,812
Change in value of split interest agreement	<u>(4,706)</u>	<u>(11,317)</u>
Balance, end of year	<u><u>\$ 497,789</u></u>	<u><u>\$ 502,495</u></u>

4. PROGRAM MATERIALS

The program materials inventory is stated at the lower of cost or net realizable value. The Center recorded a reserve of \$50,000 and \$150,000 in the years ended June 30, 2013 and 2012, respectively, which is included in program expenses. The balance of the reserve is \$200,000 and \$150,000 as of June 30, 2013 and 2012, respectively.

5. COLLECTIONS

The Center maintains a collection of video recordings and rare photographs of influential politicians, heads of state and other dignitaries as well as other artifacts of historical significance. The Center is in the process of having these items appraised, restored, digitized and archived. These collections have not been capitalized and are, therefore, not included in the accompanying statement of financial position as of June 30, 2013 and 2012.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

6. RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Georgia project	\$ -	\$ 40,190
Secretaries of Defense XVI	-	19,754
Public briefing	1,938	1,938
Teach Europe	3,656	3,656
Restricted for use in future periods	<u>831,939</u>	<u>972,544</u>
Total	<u>\$ 837,533</u>	<u>\$ 1,038,082</u>

Net assets were released from temporary restrictions by incurring expenses satisfying the restricted purposes or by occurrences of other events specified by the donor as follows:

	<u>2013</u>	<u>2012</u>
UGA archive project	\$ 127,690	\$ 88,843
Secretaries of Defense XVI	74,261	36,246
Collection of time restricted pledge	<u>135,899</u>	<u>-</u>
Total	<u>\$ 337,850</u>	<u>\$ 125,089</u>

Permanently restricted net assets of \$26,000 at June 30, 2013 and 2012 consist of the following:

- A. A grant of \$25,000 was received with the stipulation that it be retained as a permanent endowment. Income is to be used solely for the upkeep and maintenance of the property that was previously used by the Center as office space but has been disposed of by the Center. The Center is contacting the original donor to determine the proper use of the funds now that the gift is no longer needed to maintain the property.
- B. A grant of \$1,000 was received with the stipulation that it be retained as a permanent endowment. Income is to be used for general operations.

Releases of permanently restricted net assets during the year ended June 30, 2012 represent a \$100,000 grant that was released by the donor.

THE SOUTHERN CENTER FOR INTERNATIONAL STUDIES, INC.
NOTES TO FINANCIAL STATEMENTS
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7. IN-KIND CONTRIBUTIONS

In-kind contributions include imputed interest expense on interest-free loans from officers to the Center, totaling \$1,431 and \$94,473 as well as donated use of facilities for office space totaling \$10,167 and \$10,167 during the years ended June 30, 2013 and 2012, respectively. The imputed interest on the loans from officers represents the estimated interest that would have been charged by a financial institution under the circumstances. However, the officers donated the use of the funds; therefore, the imputed interest is considered a contribution as well as an in-kind administrative expense.

8. CONCENTRATIONS

A single donor contributed 89% and 68% of total contributions for the years ended June 30, 2013 and 2012, respectively.

9. RELATED-PARTY TRANSACTIONS

The officers have previously loaned the Center various amounts and have an outstanding balance of \$58,516 and \$427,130 at June 30, 2013 and 2012, respectively. These loans are unsecured and, while they are non-interest bearing, they have accrued interest at an imputed market rate of 0.95% and 23.64% for financial reporting purposes. Interest expense of \$1,431 and \$94,473 was imputed during the years ended June 30, 2013 and 2012, respectively. Accordingly, an in-kind contribution and expense of \$1,431 and \$94,473 is included on the statement of activities and net assets the years ended June 30, 2013 and 2012, respectively (See Note 7).

Officers donated use of facilities for office space during the years ended June 30, 2013 and 2012.

10. TRUST LIFE INTEREST

The Center received, from a donor in 1982, a fractional portion of a life income interest in a trust. This interest is carried at estimated fair value as re-determined each year based on a current risk-free discount rate, the current year's income distributions and the remaining life expectancy of the donor. The total revenues received and recognized from this interest totaled \$110,061 and \$103,290 for the years ended June 30, 2013 and 2012, respectively. Subsequent to the year ended June 30, 2013, the Trust was terminated for estate planning purposes and in conjunction therewith, the Center received approximately \$1,530,000 as a final trust distribution.