

# **Students In Free Enterprise**

Accountants' Report and Consolidated Financial Statements

August 31, 2010 and 2009

**Students In Free Enterprise**  
**August 31, 2010 and 2009**

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## Independent Accountants' Report

Board of Directors  
Students In Free Enterprise  
Springfield, Missouri

We have audited the accompanying consolidated statements of financial position of Students In Free Enterprise as of August 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Students In Free Enterprise as of August 31, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in *Note 9*, the Organization changed its method of accounting for donor restricted endowment funds.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position and changes in net assets of the individual entities, and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*BKD, LLP*

March 28, 2011

**Students In Free Enterprise**  
**Consolidated Statements of Financial Position**  
**August 31, 2010 and 2009**

**Assets**

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 1,274,805	\$ 618,385
Accrued interest and other receivables	22,475	47,618
Prepaid supplies	21,535	29,129
Prepaid expenses	210,846	431,665
Investments	2,261,797	1,843,119
Contributions receivable, net of allowance 2010 – \$15,000 and 2009 – \$25,000	3,020,945	4,140,074
Property and equipment, net	7,713,759	8,055,055
Other	56,902	55,028
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 14,583,064</u>	<u>\$ 15,220,073</u>

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 278,022	\$ 241,085
Accrued expenses	244,776	215,588
Accrued incentive salaries	234,467	1,000
Line of credit	-	900,000
Note payable	2,529,582	2,784,763
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>3,286,847</u>	<u>4,142,436</u>

**Net Assets**

Unrestricted	5,257,547	3,851,427
Temporarily restricted	4,417,467	5,605,007
Permanently restricted	1,621,203	1,621,203
	<u>                    </u>	<u>                    </u>
Total net assets	<u>11,296,217</u>	<u>11,077,637</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 14,583,064</u>	<u>\$ 15,220,073</u>

**Students In Free Enterprise**  
**Consolidated Statements of Activities**  
**Years Ended August 31, 2010 and 2009**

	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>Revenues, Gains and Other Support</b>				
Contributions	\$ 4,631,932	\$ 6,958,968	\$ -	\$ 11,590,900
Grants	-	179,360	-	179,360
In-kind contributions	1,026,142	-	-	1,026,142
Investment return	4,399	80,954	-	85,353
Other	18,662	-	-	18,662
Net assets released from restrictions	8,386,822	(8,386,822)	-	-
Total revenue, gains and other support	<u>14,067,957</u>	<u>(1,167,540)</u>	<u>-</u>	<u>12,900,417</u>
<b>Expenses and Losses</b>				
Program services	10,857,744	-	-	10,857,744
Management and general	626,793	-	-	626,793
Fundraising	1,209,356	-	-	1,209,356
Provision for uncollectible contributions	-	20,000	-	20,000
Total expenses and losses	<u>12,693,893</u>	<u>20,000</u>	<u>-</u>	<u>12,713,893</u>
<b>Change in Net Assets Before Cumulative Effect of Change in Accounting Principle</b>	1,374,064	(1,187,540)	-	186,524
<b>Change in Accounting Principle - ASC Topic 958</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Change in Net Assets</b>	1,374,064	(1,187,540)	-	186,524
<b>Transfer from Change in Control of SIFE China and SIFE Mexico</b>	32,056	-	-	32,056
<b>Net Assets, Beginning of Year</b>	<u>3,851,427</u>	<u>5,605,007</u>	<u>1,621,203</u>	<u>11,077,637</u>
<b>Net Assets, End of Year</b>	<u>\$ 5,257,547</u>	<u>\$ 4,417,467</u>	<u>\$ 1,621,203</u>	<u>\$ 11,296,217</u>

**2009**

<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
\$ 2,447,370	\$ 8,112,981	\$ -	\$ 10,560,351
-	-	-	-
727,016	-	-	727,016
(20,764)	(94,527)	-	(115,291)
31,409	-	-	31,409
<u>8,921,195</u>	<u>(8,921,195)</u>	<u>-</u>	<u>-</u>
<u>12,106,226</u>	<u>(902,741)</u>	<u>-</u>	<u>11,203,485</u>
10,269,546	-	-	10,269,546
691,970	-	-	691,970
1,278,974	-	-	1,278,974
<u>-</u>	<u>25,500</u>	<u>-</u>	<u>25,500</u>
<u>12,240,490</u>	<u>25,500</u>	<u>-</u>	<u>12,265,990</u>
(134,264)	(928,241)	-	(1,062,505)
<u>(942,966)</u>	<u>942,966</u>	<u>-</u>	<u>-</u>
(1,077,230)	14,725	-	(1,062,505)
-	-	-	-
<u>4,928,657</u>	<u>5,590,282</u>	<u>1,621,203</u>	<u>12,140,142</u>
<u>\$ 3,851,427</u>	<u>\$ 5,605,007</u>	<u>\$ 1,621,203</u>	<u>\$ 11,077,637</u>

**Students In Free Enterprise**  
**Consolidated Statements of Cash Flows**  
**Years Ended August 31, 2010 and 2009**

	<b>2010</b>	<b>2009</b>
<b>Operating Activities</b>		
Change in net assets	\$ 218,580	\$ (1,062,505)
Items not requiring (providing) cash		
Depreciation and amortization	434,181	491,361
Net (gain) loss on investments	(6,466)	162,496
Loss on disposal of property and equipment	2,031	-
Transfer from change in control of SIFE China and SIFE Mexico	(32,056)	-
Changes in		
Accounts receivable	22,173	(13,097)
Prepaid supplies	7,594	42
Prepaid expenses	227,857	293,107
Contributions receivable	1,119,129	701,797
Accounts payable and accrued expenses	264,689	(263,595)
Other assets and liabilities	(1,874)	13,391
	<u>2,255,838</u>	<u>322,997</u>
Net cash provided by operating activities		
	<u>2,255,838</u>	<u>322,997</u>
<b>Investing Activities</b>		
Proceeds received from change in control of SIFE China and SIFE Mexico	58,903	-
Purchase of property and equipment	(90,928)	(193,186)
Purchase of investments	(412,212)	(67,969)
Proceeds from sale of investments	-	42,937
	<u>(444,237)</u>	<u>(218,218)</u>
Net cash used in investing activities		
	<u>(444,237)</u>	<u>(218,218)</u>
<b>Financing Activities</b>		
Principal payments on note payable	(255,181)	(130,765)
Proceeds from borrowings on line of credit	1,900,000	2,945,000
Principal payments on line of credit	(2,800,000)	(3,345,000)
	<u>(1,155,181)</u>	<u>(530,765)</u>
Net cash used in financing activities		
	<u>(1,155,181)</u>	<u>(530,765)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	656,420	(425,986)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>618,385</u>	<u>1,044,371</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 1,274,805</u>	<u>\$ 618,385</u>
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 118,436	\$ 202,289
Accounts payable incurred for purchase of property and equipment	\$ -	\$ (42,199)
Noncash transfer from SIFE China and SIFE Mexico	\$ 26,847	\$ -

# **Students In Free Enterprise**

## **Notes to Consolidated Financial Statements**

### **August 31, 2010 and 2009**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

Students In Free Enterprise (the “Organization” or “SIFE”) is a not-for-profit organization, founded in 1975, works with leaders in business and higher education to mobilize university students to make a difference in their communities while developing the skills to become socially responsible business leaders. More than 42,000 college and university students in 39 countries participate on SIFE teams where they apply business concepts to develop outreach projects that improve the quality of life and standard of living for people in need. In addition to the community aspects of the program, SIFE’s leadership and career initiatives create meaningful opportunities for learning and exchange among the participants as well as the placement of students and alumni with companies in search of emerging talent. The Organization’s revenues and other support are derived through contributions from corporate and organizational partners as well as individual donors.

##### ***Principles of Consolidation***

The consolidated financial statements include the accounts of SIFE HQ and USA, SIFE China and SIFE Mexico. During 2010 SIFE China and SIFE Mexico are included in the consolidated financial statements due to changes in the control of these entities’ Boards of Directors. As a result of this change, SIFE HQ and USA received \$32,056 of net assets from SIFE China and SIFE Mexico. All significant interorganization balances and transactions have been eliminated in consolidation. SIFE China and SIFE Mexico have a fiscal year of December 31.

##### ***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues, support, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

##### ***Cash Equivalents***

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2010 and 2009, the Organization’s cash equivalents consisted of money market funds held by a broker, which are not FDIC insured.

The financial institution holding the Organization’s cash accounts is participating in the FDIC’s Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

# **Students In Free Enterprise**

## **Notes to Consolidated Financial Statements**

### **August 31, 2010 and 2009**

At August 31, 2010, cash and cash equivalents outside of the United States approximated \$199,000 and are not insured.

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statement of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

The Organization maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

#### ***Property and Equipment***

Property and equipment are depreciated on a straight-line basis over the estimated useful life of each asset.

#### ***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

#### ***Contributions***

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations of restrictions

# **Students In Free Enterprise**

## **Notes to Consolidated Financial Statements**

### **August 31, 2010 and 2009**

resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

#### ***In-Kind Contributions***

In addition to receiving cash contributions, the Organization receives in-kind contributions of office supplies and other miscellaneous items from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended August 31, 2010 and 2009, \$1,026,142 and \$727,016, respectively, were received in in-kind contributions. Of the in-kind contributions, \$905,850 and \$718,340 related to advertising provided by various donors at August 31, 2010 and 2009, respectively.

#### ***Income Taxes***

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and similar provisions of state law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

#### ***Functional Allocation of Expenses***

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the program, management and general and fundraising categories based on the nature of the expense.

#### ***Subsequent Events***

Subsequent events have been evaluated through March 28, 2011, which is the date the financial statements were available to be issued.

#### ***Reclassifications***

Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

**Note 2: Investments and Investment Return**

Investments at August 31 consist of the following:

	<b>2010</b>	<b>2009</b>
U.S. Treasury and government obligations	\$ 1,244,382	\$ 1,063,199
Common stocks	1,017,415	779,920
	<u>\$ 2,261,797</u>	<u>\$ 1,843,119</u>

Total investment return is comprised of the following at August 31:

	<b>2010</b>	<b>2009</b>
Interest and dividend income	\$ 78,887	\$ 47,205
Net realized and unrealized gains (losses) on investments reported at fair value	6,466	(162,496)
	<u>\$ 85,353</u>	<u>\$ (115,291)</u>

The Organization incurred investment expenses of \$7,739 and \$6,937 during the years ended August 31, 2010 and 2009, respectively.

**Note 3: Contributions Receivable**

Contributions receivable consist of the following at August 31:

	<b>2010</b>	<b>2009</b>
Due within one year	\$ 2,891,178	\$ 2,870,038
Due in one to three years	150,000	315,000
Due in more than three years	-	1,500,000
	<u>3,041,178</u>	<u>4,685,038</u>
Less		
Allowance for uncollectible contributions	15,000	25,000
Unamortized discount	5,233	519,964
	<u>\$ 3,020,945</u>	<u>\$ 4,140,074</u>

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

Contributions receivable at August 31, 2010 and 2009, consisted of \$1,256,845 and \$2,689,198, respectively, for general operations of the Organization. Discount rates ranged from 1.33% to 4.64% and from 1.52% to 4.64% for 2010 and 2009, respectively.

**Note 4: Property and Equipment**

Property and equipment at August 31 consists of:

	<b>2010</b>	<b>2009</b>
Land	\$ 684,841	\$ 684,841
Land improvements	74,637	74,637
Buildings and leasehold improvements	7,345,530	7,345,530
Equipment, furniture and fixtures	1,745,380	1,800,782
	9,850,388	9,905,790
Less accumulated depreciation	2,136,629	1,850,735
	\$ 7,713,759	\$ 8,055,055

**Note 5: Line of Credit**

The Organization has a \$3,000,000 revolving bank line of credit due on demand. The line of credit bears interest at the prime rate with a minimum rate of 3.75% and a maximum rate of 18%. The interest rate was 3.75% on August 31, 2010 and 2009, and is payable monthly. The line is collateralized by all of the Organization's property and equipment, accounts receivable, payment intangibles, life insurance policies, stock certificates, bonds, receipts, confirmations and other similar documents. At August 31, 2010 and 2009, there were \$0 and \$900,000, respectively, borrowed against this line.

**Note 6: Note Payable**

The Organization obtained a \$4,000,000 construction loan dated November 29, 2007, which expired on May 1, 2008. On June 5, 2008, the construction loan was repaid by proceeds of a \$3,071,113 permanent loan. The note matures on May 28, 2013, bears interest at the prime rate, and is payable in monthly installments of \$20,370 with one final balloon payment. The loan is collateralized by all of the Organization's property and equipment, accounts receivable, payment intangibles, life insurance policies, stock certificates, bonds, receipts, confirmations and other similar documents. The balance outstanding as of August 31, 2010 and 2009, is \$2,529,582 and \$2,784,763, respectively. Subsequent to year end the Organization made a \$1,500,000 payment towards the outstanding balance.

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

Aggregate annual maturities of the note payable at August 31, 2010, are:

2011	\$	163,540
2012		168,802
2013		2,197,240
		<u>2,529,582</u>
	\$	<u><u>2,529,582</u></u>

**Note 7: Net Assets**

***Temporarily Restricted Net Assets***

Temporarily restricted net assets at August 31 are available for the following purposes or periods:

	<u>2010</u>	<u>2009</u>
For periods after August 31	\$ 3,773,066	\$ 4,012,760
Other projects	<u>644,401</u>	<u>1,592,247</u>
	<u>\$ 4,417,467</u>	<u>\$ 5,605,007</u>

***Permanently Restricted Net Assets***

Permanently restricted net assets at August 31 are restricted to:

	<u>2010</u>	<u>2009</u>
Investment in perpetuity, the income of which is expendable to support:		
Sam M. Walton Free Enterprise Fellow	\$ 978,000	\$ 978,000
Jules and Gwen Knapp Scholarship	350,000	350,000
Jack Kahl/Sam M. Walton Free Enterprise Fellow of the Year	110,000	110,000
Rohrs Scholarship Endowment Fund	74,203	74,203
International Development Fund	27,000	27,000
Jack Shewmaker Spirit of SIFE Award Fund	32,000	32,000
SIFE Emerging Country Launch Fund	<u>50,000</u>	<u>50,000</u>
	<u>\$ 1,621,203</u>	<u>\$ 1,621,203</u>

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

***Net Assets Released From Restrictions***

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	<b>2010</b>	<b>2009</b>
Time restrictions accomplished	\$ 8,045,056	\$ 8,389,295
Purpose restrictions accomplished		
Building	243,381	531,900
	\$ 8,288,437	\$ 8,921,195

**Note 8: Pension Plan**

The Organization has a defined contribution pension plan covering substantially all employees. The Board of Directors annually determines the amount, if any, of the Organization's contributions to the plan. Effective September 1, 2005, the plan was modified and employer contributions changed to 3% of wages and then up to 3% match of employee contributions. As of August 31, 2010 and 2009, pension expense was \$152,694 and \$141,408, respectively.

**Note 9: Endowment**

During the year ended August 31, 2009, the Organization adopted the recognition and disclosure provisions of Financial Accounting Standards Board Staff Position FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which was incorporated into ASC Topic 958.205, *Not-for-Profit Entities Presentation of Financial Statements (ASC Topic 958)*. This new standard changes the method of classification of net assets comprising donor-restricted endowment funds when the Organization is subject to an enacted and effective version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Initial application of ASC Topic 958 by reclassification of previously reported net assets at August 31, 2009, resulted in an increase (decrease) in temporarily restricted and unrestricted net assets of \$942,966 and \$(942,966), respectively, and had no impact on previously reported total net assets.

The Organization's endowment consists of approximately seven individual funds established for a variety of purposes. The endowment includes donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

The Organization's governing body has interpreted the State of Missouri Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent 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 donor-restricted endowment funds is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Organization and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Organization

The composition of net assets by type of endowment fund at August 31, 2010 and 2009, was:

	<b>2010</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 822,435	\$ 1,621,203	\$ 2,443,638

	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 848,439	\$ 1,621,203	\$ 2,469,642

**Students In Free Enterprise**  
**Notes to Consolidated Financial Statements**  
**August 31, 2010 and 2009**

Changes in endowment net assets for the years ended August 31, 2010 and 2009, were:

	<b>2010</b>			<b>Total</b>
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	
Endowment net assets, beginning of year	\$ -	\$ 848,439	\$ 1,621,203	\$ 2,469,642
Investment return				
Investment income	-	65,915	-	65,915
Net appreciation	-	6,466	-	6,466
Total investment return	-	72,381	-	72,381
Appropriation of endowment assets for expenditure	-	(98,385)	-	(98,385)
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 822,435</u>	<u>\$ 1,621,203</u>	<u>\$ 2,443,638</u>
	<b>2009</b>			
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 942,966	\$ -	\$ 1,621,203	\$ 2,564,169
Investment return				
Investment income	-	67,969	-	67,969
Net depreciation	-	(162,496)	-	(162,496)
Total investment return	-	(94,527)	-	(94,527)
Reclassification	(942,966)	942,966	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ 848,439</u>	<u>\$ 1,621,203</u>	<u>\$ 2,469,642</u>

# **Students In Free Enterprise**

## **Notes to Consolidated Financial Statements**

### **August 31, 2010 and 2009**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Organization is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature, if any, would be reported in unrestricted net assets.

The Organization attempts to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Organization must hold in perpetuity or for donor-specified periods. The primary investment objectives are to preserve principal and provide income to cover expenses of those projects and programs endowed and to achieve this at a level of risk deemed acceptable. Risk is present in all types of securities and investment styles; some risk is necessary to produce long-term investment results that are sufficient to meet the funds' objectives. Endowment assets are invested in a portfolio that are diversified by both asset class, such as equity securities and fixed income, and within asset classes to manage volatility. Allocations and performance targets are established and are reviewed by the Organization's Investment Committee and Investment Manager.

To satisfy its long-term rate of return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

All endowments will follow spending requirements as intended by the donor and as reflected in the specific endowment agreement with a goal to maximize disbursements and, at the same time, sustain growth in the Endowment. If an individual endowment account does not have enough accumulated earnings to make the specified payments, the payments are made out of unrestricted net assets. Payouts will be reviewed and adjusted as deemed prudent by the Organization's Investment Committee.

#### **Note 10: Disclosures About Fair Value of Assets and Liabilities**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds and equity securities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include fixed income and government and agency securities. Inputs used to value these securities include interest rates for similar instruments with similar maturities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Organization has no investments classified as Level 3 within the hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31:

	<b>2010</b>			
	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market funds	\$ 270,226	\$ 270,226	\$ -	\$ -
Equity securities	1,017,415	1,017,415	-	-
Fixed income and government and agency securities	1,244,382	-	1,244,382	-

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	2009			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 608,081	\$ 608,081	\$ -	\$ -
Equity securities	779,920	779,920	-	-
Fixed income and government and agency securities	1,063,199	-	1,063,199	-

**Note 11: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

***Investments***

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

***Current Economic Conditions***

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

Current economic conditions have made it difficult for many donors to continue to contribute to not-for-profit organizations. A significant decline in contribution revenue could have an adverse impact on the Organization's future operating results.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for contributions receivable that could negatively impact the Organization's ability to maintain sufficient liquidity.

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**Note 12: Global Expansion**

In addition to the SIFE program in the United States, there are SIFE programs in the nine global regions listed below, encompassing a total of 39 countries. Programs receive various levels of support from SIFE. As discussed in *Note 1*, SIFE China and SIFE Mexico were consolidated with SIFE HQ and USA during 2010.

<b>Global Region</b>	<b>Country</b>
<b>Africa</b>	Egypt
	Ghana
	Kenya
	Morocco
	Nigeria
	Senegal
	South Africa
	Swaziland
	Tunisia
	Zimbabwe
<b>Oceania</b>	Australia
	New Zealand
<b>Central and Eastern Europe</b>	Albania
	Poland
<b>Central Asia</b>	Azerbaijan
	Kazakhstan
	Kyrgyzstan
	Tajikistan
<b>East Asia</b>	China
	India
	Japan
	Malaysia
	Philippines
	Singapore
	Republic of South Korea
	Thailand
	Vietnam

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<b>Global Region</b>	<b>Country</b>
<b>Eurasia</b>	Russia Federation
	Ukraine
<b>North America</b>	Canada
	Mexico
	Puerto Rico
	United States of America
<b>Western Europe</b>	France
	Germany
	Netherlands
	United Kingdom
<b>South America</b>	Brazil
	Guatemala

## **Supplementary Information**

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**Consolidating Schedule – Statement of Financial Position Information**  
**August 31, 2010**

	SIFE HQ and USA	SIFE China	SIFE Mexico	Eliminations	Total
<b>Assets</b>					
Cash and cash equivalents	\$ 1,215,693	\$ 46,636	\$ 12,476	\$ -	\$ 1,274,805
Accrued interest and other receivables	1,659	10,360	10,456	-	22,475
Prepaid supplies	21,535	-	-	-	21,535
Prepaid expenses	208,968	1,878	-	-	210,846
Investments	2,261,797	-	-	-	2,261,797
Contributions receivable, net of allowance 2010 – \$15,000 and 2009 – \$25,000	3,020,945	14,335	50,821	(65,156)	3,020,945
Property and equipment, net	7,709,045	3,741	973	-	7,713,759
Other	56,902	-	-	-	56,902
	<u>\$ 14,496,544</u>	<u>\$ 76,950</u>	<u>\$ 74,726</u>	<u>\$ (65,156)</u>	<u>\$14,583,064</u>
Total assets					
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Accounts payable	\$ 271,507	\$ 27,771	\$ 43,900	\$ (65,156)	\$ 278,022
Accrued expenses	244,776	-	-	-	244,776
Accrued incentive salaries	234,467	-	-	-	234,467
Line of credit	-	-	-	-	-
Note payable	2,529,582	-	-	-	2,529,582
	<u>3,280,332</u>	<u>27,771</u>	<u>43,900</u>	<u>(65,156)</u>	<u>3,286,847</u>
Total liabilities					
<b>Net Assets</b>					
Unrestricted	5,177,542	49,179	30,826	-	5,257,547
Temporarily restricted	4,417,467	-	-	-	4,417,467
Permanently restricted	1,621,203	-	-	-	1,621,203
	<u>11,216,212</u>	<u>49,179</u>	<u>30,826</u>	<u>-</u>	<u>11,296,217</u>
Total net assets					
Total liabilities and net assets	<u>\$ 14,496,544</u>	<u>\$ 76,950</u>	<u>\$ 74,726</u>	<u>\$ (65,156)</u>	<u>\$14,583,064</u>

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**Consolidating Schedule – Statement of Activities Information**  
**Year Ended August 31, 2010**

	<b>SIFE HQ and USA</b>	<b>SIFE China</b>	<b>SIFE Mexico</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenues, Gains and Other Support</b>					
Contributions	\$ 10,832,612	\$ 498,724	\$ 259,564	\$ -	\$ 11,590,900
Grants	179,360	-	-	-	179,360
In-kind contributions	986,142	-	40,000	-	1,026,142
Investment return	85,353	-	-	-	85,353
Other	14,011	4,651	-	-	18,662
	<u>12,097,478</u>	<u>503,375</u>	<u>299,564</u>	<u>-</u>	<u>12,900,417</u>
<b>Expenses and Losses</b>					
Program services	10,277,129	435,280	145,335	-	10,857,744
Management and general	543,207	37,870	45,715	-	626,792
Fundraising	1,118,567	41,890	48,900	-	1,209,357
Provision for uncollectible contributions	20,000	-	-	-	20,000
	<u>11,958,903</u>	<u>515,040</u>	<u>239,950</u>	<u>-</u>	<u>12,713,893</u>
<b>Change in Net Assets</b>	138,575	(11,665)	59,614	-	186,524
<b>Net Assets, Beginning of Year</b>	<u>11,077,637</u>	<u>60,844</u>	<u>(28,788)</u>	<u>-</u>	<u>11,109,693</u>
<b>Net Assets, End of Year</b>	<u><u>\$11,216,212</u></u>	<u><u>\$ 49,179</u></u>	<u><u>\$ 30,826</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 11,296,217</u></u>