edify

EDIFY

Financial Statements
With Independent Auditors' Report

September 30, 2012 and 2011

CAPINCROUSE LLP
Certified Public Accountants

# EDIFY

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CAPINCROUSE LLP
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**INDEPENDENT AUDITORS' REPORT**

Board of Directors
Edify
San Diego, California

We have audited the accompanying statements of financial position of Edify as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Edify'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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Edify's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of Edify as of September 30, 2012 and 2011, and the changes in its net assets and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

San Diego, California
November 14, 2012

# EDIFY

## Statements of Financial Position

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 216,499 | $ 57,288 |
| Restricted cash from donations | 233,099 | 25,685 |
| Notes receivable, current portion | 15,375 | 97,306 |
| Prepaids and other assets | 38,155 | 21,480 |
| | 503,128 | 201,759 |
| Notes receivable, net of current portion | 15,427 | 481,224 |
| Restricted cash held on deposit with partner organizations | 49,862 | 50,000 |
| Equipment - at cost, net | 25,344 | 20,999 |
| Total Assets | $ 593,761 | $ 753,982 |
| LIABILITIES AND NET ASSETS: | | |
| Current liabilities: | | |
| Accounts payable | $ 84,773 | $ 6,842 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | 250,545 | 700,456 |
| Net investment in equipment | 25,344 | 20,999 |
| | 275,889 | 721,455 |
| Temporarily restricted donations | 233,099 | 25,685 |
| | 508,988 | 747,140 |
| Total Liabilities and Net Assets | $ 593,761 | $ 753,982 |

See notes to financial statements

# EDIFY

## Statements of Activities

| | Year Ended September 30, 2012 | | | Year Ended September 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE: | | | | | | |
| Contributions | $ 2,078,881 | $ 1,182,450 | $ 3,261,331 | $ 2,072,091 | $ 417,830 | $ 2,489,921 |
| Interest income | 25,381 | - | 25,381 | 13,509 | - | 13,509 |
| Other income | 12,769 | - | 12,769 | 7,975 | - | 7,975 |
| | 2,117,031 | 1,182,450 | 3,299,481 | 2,093,575 | 417,830 | 2,511,405 |
| Release of temporarily restricted net assets from donor restrictions: | 975,036 | (975,036) | - | 412,145 | (412,145) | - |
| Total Support and Revenue | 3,092,067 | 207,414 | 3,299,481 | 2,505,720 | 5,685 | 2,511,405 |
| EXPENSES: | | | | | | |
| Program services: | | | | | | |
| Grants for revolving loans | 1,519,215 | - | 1,519,215 | 849,005 | - | 849,005 |
| Other program services | 1,300,598 | - | 1,300,598 | 652,038 | - | 652,038 |
| Supporting activities: | | | | | | |
| General and administrative | 280,912 | - | 280,912 | 310,172 | - | 310,172 |
| Fundraising | 436,908 | - | 436,908 | 209,849 | - | 209,849 |
| Total Expenses | 3,537,633 | - | 3,537,633 | 2,021,064 | - | 2,021,064 |
| Change in Net Assets | (445,566) | 207,414 | (238,152) | 484,656 | 5,685 | 490,341 |
| Net Assets, Beginning of Year | 721,455 | 25,685 | 747,140 | 236,799 | 20,000 | 256,799 |
| Net Assets, End of Year | $ 275,889 | $ 233,099 | $ 508,988 | $ 721,455 | $ 25,685 | $ 747,140 |

See notes to financial statements

# EDIFY

## Statements of Cash Flows

| | Year Ended September 30, 2012 | 2011 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ (238,152) | $ 490,341 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 18,677 | 7,506 |
| Currency exchange loss | 27,684 | - |
| Loss on sale of fixed assets | 287 | - |
| Amortization of notes receivable discount | - | (10,867) |
| Discount recorded on notes receivable | - | 49,005 |
| Stock gifts | (65,801) | (78,225) |
| Recovery of discounts on notes receivable | (31,588) | - |
| Net change in: | | |
| Restricted cash from donations | (207,414) | (5,685) |
| Prepaids and other assets | (20,515) | (18,290) |
| Accounts payable | 77,931 | (2,040) |
| Net Cash Provided by (Used In) Operating Activities | (438,891) | 431,745 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Equipment additions | (20,469) | (17,022) |
| Proceeds from sale of fixed assets | 1,000 | - |
| Notes receivable issued | (30,802) | (517,725) |
| Collections on notes receivable | 582,572 | 23,720 |
| Restricted cash deposited with partner organizations | - | (50,000) |
| Proceeds from sale of stock gifts | 65,801 | 169,667 |
| Net Cash Provided by (Used in) Investing Activities | 598,102 | (391,360) |
| Change in Cash and Cash Equivalents | 159,211 | 40,385 |
| Cash and Cash Equivalents, Beginning of Year | 57,288 | 16,903 |
| Cash and Cash Equivalents, End of Year | $ 216,499 | $ 57,288 |

See notes to financial statements

# EDIFY

## Notes to Financial Statements

September 30, 2012 and 2011

1. NATURE OF ORGANIZATION:

Edify was incorporated in 2009 in California as a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). It is also exempt from state income taxes. Edify has been classified as a publicly supported organization, which is not a private foundation, under Section 509(a) of the Code. The primary source of revenue for Edify is contributions which are tax-deductible for income tax purposes.

Edify is a religious organization dedicated to bringing Jesus Christ to children through Christian character development and provision of an excellent academic education, and to bringing children, parents, teachers and donors to Christ. Edify is focused on delivering three key resources to help Christian education entrepreneurs in developing countries lift their communities out of poverty:

1. Capital to expand or improve facilities at affordable private Christian schools, thereby increasing access to education for the poor
2. Curricula and other tools to strengthen schools' Christian message and witness
3. Business and teacher training for proprietors and educators to increase education quality

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements for Edify have been prepared on the accrual basis. A summary of significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

CASH AND CASH EQUIVALENTS

For statements of financial position and cash flow purposes, cash and cash equivalents include cash on hand, cash on deposit, money market accounts, and certificates of deposit with a maturity of less than 90 days. These accounts may, at times, exceed federally insured limits. Edify has not experienced any losses in such accounts.

RESTRICTED CASH FROM DONATIONS

Edify keeps a separate bank account for all contributions with donor restrictions. See note 6 for more information.

EQUIPMENT

Expenditures over $1,000 for equipment are capitalized at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which is three years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

NET ASSETS
The financial statements report amounts by class of net assets:

*Unrestricted net assets* are those currently available at the discretion of the board for use in Edify's operations and those resources invested in equipment.

*Temporarily restricted net assets* are those which are stipulated by donors for specific operating purposes or for specific projects.

All contributions are considered available for unrestricted use unless specifically restricted by the donor or subject to legal restrictions.

PUBLIC SUPPORT, REVENUE, AND EXPENSES
Contributions are recorded when cash or unconditional promises-to-give have been received or when ownership of donated assets are transferred to the ministry. Edify records contributions as temporarily restricted if they are received with donor stipulations that limit their use either through purpose or time restrictions, or both. When donor restrictions expire, that is when the purpose restriction is fulfilled or the time restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as release of donor restrictions.

Revenue is recorded when earned. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

FUNCTIONAL ALLOCATION OF EXPENSES
The costs of providing the various program services and supporting activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs, such as depreciation and payroll, have been allocated among the program services and supporting activities. Currently, there are no joint costs that have been allocated among the program, general and administrative, and fundraising.

USE OF ESTIMATES
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. NOTES RECEIVABLE:

Notes receivable consist of:

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Seven notes loaned to one school program located in Ghana with varying interest rates ranging from 0% to 10%. Amounts with interest rates below market are discounted to represent the present value of future cash flows at a reasonable rate. | $ - | $ 624,005 |
| Conditional use loan receivable from a Christian school in Rwanda, secured by computer equipment, with a 0% interest rate unless the school defaults on the loan. Payments of $1,928 are due quarterly though September 2015. No present value discount was recorded due to immateriality. | 23,140 | - |
| Other short-term loans | 7,662 | - |
| | 30,802 | 624,005 |
| Less present value discount | - | (45,475) |
| Less current portion | (15,375) | (97,306) |
| Notes receivable, net of current portion | $ 15,427 | $ 481,224 |

Annual maturities, net of discount, are:

| Year Ending September 30, | |
|---|---|
| 2013 | $ 15,375 |
| 2014 | 7,714 |
| 2015 | 7,713 |
| | $ 30,802 |

During the year ended September 30, 2012, Edify granted a total of $800,803 to two ministry partners in developing countries who provide microfinance Christian education loans. In conjunction with these grants, Edify entered into repayment agreements with the intent to hold the partners accountable for using the funds in accordance with the agreed upon terms. Since the primary purpose of these funds was to provide capital for microfinance lending with more favorable terms than standard lending conditions, the amounts are reported as grants for revolving loans on the statements of activities and are not reflected as notes receivable on the statements of financial position. None of these amounts have been returned to Edify as of the September 30, 2012.

4. RESTRICTED CASH HELD ON DEPOSIT WITH PARTNER ORGANIZATIONS:

Restricted cash held on deposit with partner organizations consists of a deposit held at a lending institution in Rwanda. Edify agreed to deposit the money as collateral against loans disbursed to schools on a two-to-one ratio and can only be used if an Edify approved loan was in default. The cash is restricted and may not be withdrawn by Edify over the first three years of the agreement, which was signed in September 2011. Edify recognized a loss on currency exchange rate related to this deposit totaling $2,615 and $0 as of September 30, 2012 and 2011, respectively. None of the collateralized loans were in default as of September 30, 2012 and 2011.

5. EQUIPMENT:

Equipment consists of:

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Computer equipment | $ 29,115 | $ 29,035 |
| Vehicles | 18,500 | - |
| Camera equipment | 2,055 | 2,055 |
| Less accumulated depreciation | (24,326) | (10,091) |
| Equipment, net of depreciation | $ 25,344 | $ 20,999 |

6. TEMPORARILY RESTRICTED NET ASSETS:

Donor-restricted funds consist of:

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Dominican Republic designated projects | $ 79,505 | $ 25,685 |
| Ghana designated projects | 44,948 | - |
| Rwanda designated projects | 78,646 | - |
| Research project | 30,000 | - |
| | $ 233,099 | $ 25,685 |

7. COMMITMENTS:

Edify agreed to provide grants to a ministry partner in Ghana, Sinapi Aba Trust (SAT), not to exceed $84,000 annually for a period of 5 years beginning in 2013. The grants are for certain operating expenses related to the Edify school loan program in Ghana. Payment of the grants are contingent upon SAT delivering specific operating reports on a monthly and/or quarterly basis.

8. CONCENTRATION:
For the years ended September 30, 2012 and 2011, five donors provided approximately 44% and 42% of total contributions, respectively.

9. RELATED PARTY:
One of Edify's board members is also a board member at the lending institution to which Edify has restricted cash on deposit, as described in Note 3.

10. SUBSEQUENT EVENTS:
Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.