edify

Financial Statements
With Independent Auditors' Report

September 30, 2013 and 2012

CapinCrouse LLP
Certified Public Accountants

EDIFY

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Edify
San Diego, California

Report on the Financial Statements

We have audited the accompanying financial statements of Edify, which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 Edify'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 Edify'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.

Board of Directors
Edify
San Diego, California

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, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Capin Crouse LLP

San Diego, California
November 11, 2013

EDIFY

Statements of Financial Position

	September 30, 2013	September 30, 2012
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 162,663	$ 216,499
Restricted cash from donations	786,685	233,099
Notes receivable, current portion	28,439	15,375
Prepaids and other assets	26,186	38,155
	1,003,973	503,128
Notes receivable, net of current portion	84,201	15,427
Restricted cash held on deposit with partner organizations	48,625	49,862
Equipment - at cost, net	21,980	25,344
Total Assets	$1,158,779	$ 593,761
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	$ 110,288	$ 84,773
Net assets:		
Unrestricted:		
Undesignated	239,826	250,545
Net investment in equipment	21,980	25,344
	261,806	275,889
Temporarily restricted donations	786,685	233,099
	1,048,491	508,988
Total Liabilities and Net Assets	$1,158,779	$ 593,761

See notes to financial statements

EDIFY

Statements of Activities

	Year Ended September 30,					
	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	$ 2,348,555	$ 1,562,860	$ 3,911,415	$ 2,078,881	$ 1,182,450	$ 3,261,331
Interest income	2,223	-	2,223	25,381	-	25,381
Other income	21,155	-	21,155	12,769	-	12,769
	2,371,933	1,562,860	3,934,793	2,117,031	1,182,450	3,299,481
Release of temporarily restricted net assets from donor restrictions:	1,009,274	(1,009,274)	-	975,036	(975,036)	-
Total Support and Revenue	3,381,207	553,586	3,934,793	3,092,067	207,414	3,299,481
EXPENSES:						
Program services:						
Grants for revolving loans	1,229,856	-	1,229,856	1,519,215	-	1,519,215
Other program services	1,567,980	-	1,567,980	1,300,598	-	1,300,598
Supporting activities:						
General and administrative	289,378	-	289,378	280,912	-	280,912
Fundraising	308,076	-	308,076	436,908	-	436,908
Total Expenses	3,395,290	-	3,395,290	3,537,633	-	3,537,633
Change in Net Assets	(14,083)	553,586	539,503	(445,566)	207,414	(238,152)
Net Assets, Beginning of Year	275,889	233,099	508,988	721,455	25,685	747,140
Net Assets, End of Year	$ 261,806	$ 786,685	$ 1,048,491	$ 275,889	$ 233,099	$ 508,988

See notes to financial statements

EDIFY

Statements of Cash Flows

	Year Ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 539,503	$ (238,152)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	15,295	18,677
Currency exchange loss	8,460	27,684
Loss on sale of fixed assets	-	287
Donation of computer equipment	(6,472)	-
Recovery of discounts on notes receivable	-	(31,588)
Net change in:		
Restricted cash from donations	(553,586)	(207,414)
Prepaids and other assets	8,386	(20,515)
Accounts payable	25,515	77,931
Net Cash Provided By (Used In) Operating Activities	37,101	(373,090)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Equipment additions	(1,876)	(20,469)
Proceeds from sale of fixed assets	-	1,000
Notes receivable issued	(104,603)	(30,802)
Collections on notes receivable	15,542	582,572
Net Cash Provided by (Used in) Investing Activities	(90,937)	532,301
Change in Cash and Cash Equivalents	(53,836)	159,211
Cash and Cash Equivalents, Beginning of Year	216,499	57,288
Cash and Cash Equivalents, End of Year	$ 162,663	$ 216,499

See notes to financial statements

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 of accounting in accordance with accounting principles generally accepted in the United States of America. 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 ranges from three to five years.

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.

2. <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:</u>

NET ASSETS, continued:
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.

UNCERTAIN TAX POSITIONS
The financial statement effects of a tax position taken or expected to be taken are recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Interest and penalties, if any, are included in expenses in the statements of activities. As of September 30, 2013 and 2012, Edify had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

Edify files information tax returns in the U.S. and California. Edify is subject to income tax examinations for the current year and certain prior years based on the applicable laws and regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS
The Financial Accounting Standards Board (FASB) recently issued an accounting standards update to the *Statement of Cash Flows—Overall—Other Presentation Matters Topic* of the Accounting Standards Codification (ASC). The amendments in this update require classification of cash receipts from the sale of donated financial assets (e.g., debt or equity instruments) by a not-for-profit that, upon receipt of the donated financial assets, are directed for sale without any limitations and are converted nearly immediately into cash as (1) operating cash flows, or (2) if the donor has restricted the use of the securities to a long-term purpose, as financing cash flows. The amendments require classification as investing cash flows of all other cash receipts resulting from the sale of debt and equity securities not meeting the foregoing conditions for classification within operating or financing cash flows. The amendments are effective for fiscal years beginning after June 15, 2013, with early adoption permitted. Edify has early adopted this update and has restated prior year financial statements for comparability. The effect of this restatement was to increase net cash provided by operating activities and decrease net cash provided by investing activities by $65,801 for the year ended September 30, 2012.

3. NOTES RECEIVABLE:
Notes receivable consist of:

	September 30,	
	2013	2012
Conditional use loan receivable from Kenya Commercial Bank in Rwanda with a 0% interest rate unless the bank defaults on the loan. Payments of $4,641 are due quarterly though October 2018. No present value discount or imputed interest was recorded due to immateriality.	$ 92,812	$ -
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 or imputed interest was recorded due to immateriality.	17,355	23,140
Other short-term loans	2,473	7,662
	112,640	30,802
Less current portion	(28,439)	(15,375)
Notes receivable, net of current portion	$ 84,201	$ 15,427

3. NOTES RECEIVABLE, continued:

Annual maturities, net of discount, are:

Year Ending September 30,	
2014	$ 28,439
2015	26,276
2016	20,491
2017	18,562
2018	18,562
Thereafter	310
	$ 112,640

During the years ended September 30, 2013 and 2012, Edify granted a total of $1,029,171 and $800,803 to 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.

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 $2,657 and $2,615 as of September 30, 2013 and 2012, respectively. None of the collateralized loans were in default as of September 30, 2013 and 2012.

5. EQUIPMENT:

Equipment consists of:

	September 30, 2013	September 30, 2012
Computer equipment	$ 37,463	$ 29,115
Vehicles	18,500	18,500
Camera equipment	2,055	2,055
Less accumulated depreciation	(36,038)	(24,326)
Equipment, net of depreciation	$ 21,980	$ 25,344

6. TEMPORARILY RESTRICTED NET ASSETS:

Donor-restricted funds consist of:

	September 30, 2013	September 30, 2012
Dominican Republic designated projects	$ 86,322	$ 79,505
Ghana designated projects	335,310	44,948
Rwanda designated projects	7,111	78,646
Peru designated projects	75,000	-
Africa designated projects	21,960	-
Liberia designated projects	114,000	-
Funds for school loans	30,000	30,000
Christian transformation	116,982	-
	$ 786,685	$ 233,099

7. COMMITMENTS:

For the year ended September 30, 2013, Edify agreed to pay Kenya Commercial Bank an interest rate subsidy grant not to exceed $28,000 in the aggregate through October 2018.

For the year ended September 30, 2012, 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. Edify granted $62,995 to SAT during the year ended September 30, 2013.

8. CONCENTRATION:
For the years ended September 30, 2013 and 2012, five donors provided approximately 45% and 44% 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 4. In addition, Edify made grants during the year to other nonprofit organizations that have Edify management or board members currently serving on those organization's board. Edify granted $169,741 and $0 during the years ended September 30, 2013 and 2012, respectively.

10. SUBSEQUENT EVENTS:
Subsequent to the year ended September 30, 2013, a board member loaned Edify $100,000 at 0% to help cover short term operation costs. The loan is expected to be repaid in full by January 2014.

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.