



Financial Statements
With Independent Auditors' Report

September 30, 2016 and 2015

EDIFY

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6

INDEPENDENT AUDITORS' REPORT

Board of Directors
Edify
San Diego, California

We have audited the accompanying financial statements of Edify, which comprise the statements of financial position as of September 30, 2016 and 2015, 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, 2016 and 2015, 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 18, 2016

EDIFY

Statements of Financial Position

	September 30,	
	<u>2016</u>	<u>2015</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 387,255	\$ 838,432
Restricted cash from donations	1,314,419	887,559
Board designated cash reserve	560,141	558,773
Notes receivable, current portion	15,356	18,960
Prepays and other assets	133,877	66,846
	<u>2,411,048</u>	<u>2,370,570</u>
Notes receivable, net of current portion	19,650	38,825
Restricted cash held on deposit with partner organizations	45,668	48,907
Prepays and other assets, net of current portion	13,200	26,400
Equipment - at cost, net	43,732	26,977
	<u>19,650</u>	<u>38,825</u>
	<u>45,668</u>	<u>48,907</u>
	<u>13,200</u>	<u>26,400</u>
	<u>43,732</u>	<u>26,977</u>
Total Assets	<u>\$ 2,533,298</u>	<u>\$ 2,511,679</u>
LIABILITIES AND NET ASSETS:		
Current liabilities:		
Accounts payable	\$ 140,653	\$ 102,661
Other long-term liabilities	5,453	-
	<u>146,106</u>	<u>102,661</u>
Net assets:		
Unrestricted:		
Undesignated	468,900	935,709
Designated by board as general operating reserve	560,141	558,773
Net investment in equipment	43,732	26,977
	<u>1,072,773</u>	<u>1,521,459</u>
Temporarily restricted	1,314,419	887,559
	<u>2,387,192</u>	<u>2,409,018</u>
Total Liabilities and Net Assets	<u>\$ 2,533,298</u>	<u>\$ 2,511,679</u>

See notes to financial statements

EDIFY

Statements of Activities

	Year Ended September 30,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:						
Contributions	\$ 3,005,638	\$ 1,785,898	\$ 4,791,536	\$ 3,500,055	\$ 951,000	\$ 4,451,055
Interest income	1,758	-	1,758	1,857	-	1,857
Other income	206,873	-	206,873	52,910	-	52,910
	3,214,269	1,785,898	5,000,167	3,554,822	951,000	4,505,822
Release of temporarily restricted net assets from donor restrictions	1,359,038	(1,359,038)	-	1,066,142	(1,066,142)	-
Total Support and Revenue	4,573,307	426,860	5,000,167	4,620,964	(115,142)	4,505,822
EXPENSES:						
Program services:						
Grants for revolving loans	930,412	-	930,412	638,091	-	638,091
Other program services	2,915,923	-	2,915,923	2,047,972	-	2,047,972
Supporting activities:						
General and administrative	323,833	-	323,833	350,850	-	350,850
Fundraising	851,825	-	851,825	638,754	-	638,754
Total Expenses	5,021,993	-	5,021,993	3,675,667	-	3,675,667
Change in Net Assets	(448,686)	426,860	(21,826)	945,297	(115,142)	830,155
Net Assets, Beginning of Year	1,521,459	887,559	2,409,018	576,162	1,002,701	1,578,863
Net Assets, End of Year	\$ 1,072,773	\$ 1,314,419	\$ 2,387,192	\$ 1,521,459	\$ 887,559	\$ 2,409,018

See notes to financial statements

EDIFY

Statements of Cash Flows

	Year Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (21,826)	\$ 830,155
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	14,264	9,599
Currency exchange loss	8,037	6,191
Donation of computer software	(7,644)	(2,940)
Net change in:		
Restricted cash from donations	(426,860)	115,142
Board designated cash reserve	(1,368)	(554,187)
Prepays and other assets	(53,881)	(63,735)
Accounts payable	43,445	27,628
Net Cash Provided by (Used in) Operating Activities	<u>(445,833)</u>	<u>367,853</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Equipment and software additions	(23,325)	(12,519)
Collections on notes receivable	17,981	26,515
Net Cash Provided by (Used in) Investing Activities	<u>(5,344)</u>	<u>13,996</u>
Change in Cash and Cash Equivalents	(451,177)	381,849
Cash and Cash Equivalents, Beginning of Year	<u>838,432</u>	<u>456,583</u>
Cash and Cash Equivalents, End of Year	<u>\$ 387,255</u>	<u>\$ 838,432</u>

See notes to financial statements

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

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 focusing on delivering four key resources to help Christian education entrepreneurs in developing countries lift their communities out of poverty.

1. Training school leaders and teachers to use Christ-centered materials to develop character in students
2. Providing loan capital to expand and improve facilities at low-fee, sustainable Christ-centered schools
3. Training school leaders to effectively manage and to grow sustainable and transformational schools
4. Integrating education technology to enhance learning outcomes and employability

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 ten years.

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

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.

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, 2016 and 2015, Edify had no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued:

UNCERTAIN TAX POSITIONS, continued

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.

3. NOTES RECEIVABLE:

Notes receivable consist of:

	<u>September 30,</u>	
	<u>2016</u>	<u>2015</u>
Conditional use loan receivable from Kenya Commercial Bank in Rwanda with a 0% interest rate unless the bank defaults on the loan. Payments of \$3,839 are due quarterly through October 2018, with a final payment amount of \$4,294. No present value discount was recorded due to immateriality.	\$ 35,006	\$ 55,857
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. The final payment of \$1,928 was made in October 2015.	-	1,928
	<u>35,006</u>	<u>57,785</u>
Less current portion	<u>(15,356)</u>	<u>(18,960)</u>
Notes receivable, net of current portion	<u>\$ 19,650</u>	<u>\$ 38,825</u>

Annual maturities are:

<u>Year Ending September 30,</u>	
2017	\$ 15,356
2018	15,356
2019	<u>4,293</u>
	<u>\$ 35,006</u>

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

3. NOTES RECEIVABLE, continued:

During the years ended September 30, 2016 and 2015, Edify granted a total of \$1,021,760 and \$670,046 to ministry partners in developing countries who provide small and medium enterprise 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 is to provide capital for small and medium enterprise 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. Edify recognized a loss on currency exchange rate related to this deposit totaling \$4,810 and \$3,806 as of September 30, 2016 and 2015, respectively. None of the collateralized loans were in default as of September 30, 2016 and 2015.

5. EQUIPMENT:

Equipment consists of:

	September 30,	
	2016	2015
Computer equipment and software	\$ 63,586	\$ 50,916
Furniture	37,665	19,366
Camera equipment	2,055	2,055
Less accumulated depreciation	(59,574)	(45,360)
Equipment, net of depreciation	<u>\$ 43,732</u>	<u>\$ 26,977</u>

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

6. TEMPORARILY RESTRICTED NET ASSETS:

Donor-restricted funds consist of:

	September 30,	
	2016	2015
Dominican Republic designated projects	\$ 132,183	\$ 108,600
Ghana designated projects	20,054	4,544
Rwanda designated projects	58,761	9,142
Peru designated projects	121,896	54,315
Africa designated projects	305,000	307,007
Liberia designated projects	5,000	-
Burkina Faso designated projects	83,772	-
Ethiopia designated projects	17,582	39,000
Guatemala designated projects	63,756	21,000
Education technology	-	22,179
Funds for school loans	57,500	100,000
India designated projects	145,763	-
Philippines feasibility study	8,225	-
Christian transformation	294,927	221,772
	<u>\$ 1,314,419</u>	<u>\$ 887,559</u>

7. COMMITMENTS:

Edify has agreed to pay Kenya Commercial Bank an interest rate subsidy grant not to exceed \$28,000 in the aggregate through October 2018.

Edify has agreed to provide their Northeast India lending partner, WSDS Initiate, \$150,016 for loans to schools by September 30, 2019. A one-time grant of \$3,500 will be paid in two installments of \$1,750 during fiscal year 2017 to subsidize the cost of dedicated loan officers.

Edify has agreed to provide their Peru lending partner, ASIDME, a one-time grant of \$3,000 to subsidize the cost of dedicated loan officers. This will be payable in two installments of \$1,500 during fiscal year 2017.

Edify signed a lease in November 2015 for office space in San Diego, California. Monthly payments of \$3,072. Edify received 3 months free rent, per the terms of the contract, and spread this out throughout the life of the lease. The lease expires in December 2018. Total lease expense for the year ended September 30, 2016 was \$31,189.

EDIFY

Notes to Financial Statements

September 30, 2016 and 2015

7. COMMITMENTS, continued:

Future minimum cash lease payments are as follows:

<u>Years Ending September 30,</u>	
2017	\$ 38,339
2018	40,014
2019	<u>8,509</u>
	<u>\$ 86,862</u>

8. CONCENTRATION:

For the years ended September 30, 2016 and 2015, five donors provided approximately 35% and 38% 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 to other nonprofit organizations that have Edify management or board members currently or formerly serving on those organization's boards. Edify granted \$83,835 and received a loan repayment of \$93,342 related to these organizations during the year ended September 30, 2016. Edify granted \$135,508 to these organizations during the year ended September 30, 2015.

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.