

EDUCATION IS FREEDOM FOUNDATION

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

Year Ended December 31, 2008
With Summarized Comparative Information
For the Year Ended December 31, 2007

**Education is Freedom Foundation
Financial Statements
December 31, 2008 with Summarized Comparative Totals for 2007**

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to the Financial Statements	6-13

Darrell Harris, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Education Is Freedom Foundation

I have audited the accompanying statement of financial position of Education Is Freedom Foundation (a nonprofit organization) as of December 31, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit. The prior year summarized comparative information has been derived from the Organization's December 31, 2007 financial statements, and in my report dated April 23, 2008, I expressed an unqualified opinion on those financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Is Freedom Foundation as of December 31, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Darrell Harris

Darrell Harris, CPA
Mesquite, Texas
April 30, 2009

EDUCATION IS FREEDOM FOUNDATION
Statement of Financial Position
December 31, 2008 with Summarized Comparative Totals for 2007

	<u>12/31/2008</u>	<u>12/31/2007</u>
ASSETS		
Cash and Cash Equivalents (Note 3)	\$ 1,674,920	\$ 1,555,233
Contributions Receivable (Note 4)	2,274,247	2,267,782
Canister Program Receivable (Note 4)	60,000	74,649
Pledges Receivable as intermediary (Note 1g)	150,000	-
Prepaid Expenses	1,420	-
Total Current Assets	<u>4,160,587</u>	<u>3,897,664</u>
Equipment (Note 5)	204,305	77,331
Less: Accumulated Depreciation	<u>(42,000)</u>	<u>(11,544)</u>
Total Fixed Assets	162,305	65,787
Long Term Contributions Receivable (Note 4)	1,050,000	1,455,000
Less: Discount (Note 4)	<u>(59,846)</u>	<u>(61,511)</u>
Net Long Term Contributions Receivable	990,154	1,393,489
TOTAL ASSETS	<u>\$ 5,313,046</u>	<u>\$ 5,356,940</u>
 LIABILITIES AND NET ASSETS		
Accounts Payable	\$ 124,732	\$ 64,280
Accrued Payroll & Time Off Benefits	106,830	74,402
Pledges held for Others (Note 1g)	<u>150,000</u>	<u>-</u>
Total Current Liabilities	381,562	138,682
Net Assets		
Unrestricted	2,331,353	2,369,235
Temporarily Restricted (Note 10)	<u>2,600,131</u>	<u>2,849,023</u>
Total Net Assets	4,931,484	5,218,258
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,313,046</u>	<u>\$ 5,356,940</u>

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

EDUCATION IS FREEDOM FOUNDATION

Statement of Activities

Year Ending December 31, 2008 with Summarized Comparative Totals for 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2008</u>	<u>Total 2007</u>
REVENUE AND PUBLIC SUPPORT				
Contributions and grants (Note 1i)	\$ 737,712	\$ 2,004,131	\$ 2,741,843	\$ 574,298
Canister Program Contributions (Note 1i)	366,478	-	366,478	486,711
In-Kind Contributions (Note 6)	227,866	-	227,866	83,183
Interest Income	10,178	-	10,178	44,937
	<u>1,342,234</u>	<u>2,004,131</u>	<u>3,346,365</u>	<u>1,189,129</u>
Net Assets released from restriction				
Satisfaction of Program Use (Note 12)	<u>2,253,023</u>	<u>(2,253,023)</u>	<u>-</u>	<u>-</u>
Total Revenue and Public Support	<u>3,595,257</u>	<u>(248,892)</u>	<u>3,346,365</u>	<u>1,189,129</u>
EXPENSES				
Program Services	2,647,409	-	2,647,409	1,427,189
Development	374,072	-	374,072	214,054
Management & General	611,658	-	611,658	549,793
	<u>3,633,139</u>	<u>-</u>	<u>3,633,139</u>	<u>2,191,036</u>
INCREASE IN NET ASSETS	(37,882)	(248,892)	(286,774)	(1,001,907)
NET ASSETS AT BEGINNING OF YEAR	<u>2,369,235</u>	<u>2,849,023</u>	<u>5,218,258</u>	<u>6,220,165</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,331,353</u>	<u>\$ 2,600,131</u>	<u>\$ 4,931,484</u>	<u>\$ 5,218,258</u>

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

EDUCATION IS FREEDOM FOUNDATION

Statement of Cash Flows

Year Ending December 31, 2008 with Summarized Comparative Totals for 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (286,774)	\$ (1,001,907)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Increase) Decrease in Assets		
Depreciation	30,456	11,544
(Increase) Decrease in Prepaid Expenses	(1,420)	-
(Increase) Decrease in Current Receivable balances	(141,816)	(520,758)
(Increase) Decrease in LT Contributions Receivable	403,335	1,342,509
Increase (Decrease) in Accounts Payable\Accruals	<u>242,880</u>	<u>58,304</u>
Net Cash Provided (Used) by Operating Activities	246,661	(110,308)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment	<u>(126,974)</u>	<u>(56,837)</u>
Net Cash Provided (Used) by Investing Activities	(126,974)	(56,837)
 CASH FLOWS FROM FINANCING ACTIVITIES		
None	<u>-</u>	<u>-</u>
Net Cash Provided (Used) by Financing Activities	-	-
 Net Increase (Decrease) in Cash and Cash Equivalents	119,687	(167,145)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,555,233	1,722,378
 CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 1d)	\$ <u><u>1,674,920</u></u>	\$ <u><u>1,555,233</u></u>

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

EDUCATION IS FREEDOM FOUNDATION
Statement of Functional Expenses
Year Ending December 31, 2008 with Summarized Comparative Totals for 2007

Natural Expense Categories	Program Services	Support Services		Total 2008	Total 2007
		Development	Management and General		
Salaries and Wages	\$ 625,601	\$ 240,379	\$ 319,549	\$ 1,185,529	\$ 784,337
Payroll Tax Expenses	41,681	12,951	21,192	75,824	52,482
Fringe Benefits	145,477	26,912	54,764	227,153	125,324
Contract Labor	138,967	23,900	11,969	174,836	76,663
Professional Fees	51,593	6,377	73,678	131,648	45,697
Evaluation Research	123,750	-	-	123,750	53,347
Office Supplies	21,059	1,692	19,931	42,682	32,417
Program Materials	258,633	-	-	258,633	-
Travel & Transportation	37,090	3,763	7,758	48,611	41,419
Meals and Entertainment	18,326	4,402	9,078	31,806	17,118
Occupancy	158,222	21,765	19,044	199,031	76,281
Equipment Rental	3,230	2,250	892	6,372	1,600
Scholarships - National	376,950	-	-	376,950	567,367
Scholarships - Local	348,346	-	-	348,346	202,151
Student Support	38,151	-	-	38,151	-
Program Events	83,610	-	3,175	86,785	16,592
Public Relations	103,958	15,200	22,990	142,148	37,006
Telecommunications	46,864	7,610	25,426	79,900	33,995
Insurance	800	219	8,005	9,024	4,881
Other	3,782	1,779	9,943	15,504	10,815
Depreciation	21,319	4,873	4,264	30,456	11,544
Total Expenses	\$ 2,647,409	\$ 374,072	\$ 611,658	\$ 3,633,139	\$ 2,191,036

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

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History, and Organization:

Education is Freedom Foundation (hereinafter “Foundation”) is a national nonprofit organization based in Dallas, Texas, that focuses on reducing the high school dropout rates and increasing college readiness among disadvantaged middle and high school students. Founded in April 2002 on the principle that every young person deserves the opportunity to pursue a higher education, the organization strives to have a positive impact on the successes of urban youth and their pursuit of higher education by promoting responsibility, academic excellence, self discipline and good citizenship.

The Foundation originated with a two-tiered program targeted at both the national and local levels. The National Scholarship Program was launched in 2002 and has served students in all 50 states through a nationally competitive scholarship program.

Since its inception, over 50,000 students have applied for funding and more than \$7 million has been awarded. Locally, *EIF Dallas*, which was launched in 2003, is a comprehensive school-based program that provides middle and high school students with ongoing college preparation support through tutoring, mentoring, life skills development and financial assistance. Both programs are supported through donor contributions and grants.

Significant Accounting Policies

Management selects accounting principles generally accepted in the United States of America and adopts methods for their application. This summary of significant accounting policies selected by the Foundation’s management is presented to assist in understanding the financial statements.

(a) Basis of Accounting

The accompanying financial statements have been prepared using the accrual basis of accounting.

(b) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Accordingly, it is reasonably possible for actual results to differ from those estimates.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

(c) Financial Statement Presentation

The Foundation is required to classify net assets and revenues, expenses, gains, and losses according to the existence or absence of donor-imposed restrictions. Therefore, net assets and changes therein are classified into three classes: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets defined as follows:

Unrestricted net assets are those funds not restricted by donor-imposed stipulations. Unrestricted net assets include certain funds that the Board of Directors has determined are to be retained for a particular purpose.

Temporarily restricted net assets are those funds restricted by the donor(s) to be expended only for a specific purpose or within a certain time.

Permanently restricted net assets are subject to donor-imposed restrictions that must be maintained in perpetuity. Only the income generated from such assets may be used by the Foundation

(d) Cash and Cash Equivalents

For statement of cash flow purposes, cash and cash equivalents includes cash and highly liquid investments that are readily convertible to known amounts of cash.

(e) Investments

The Foundation has adopted SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations. Under SFAS No. 124, investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as an increase in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gain are recognized.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

(f) Contributions Receivable

Pledges are recorded at their net realizable value. Multi-year pledges are being discounted to the anticipated net present value of the future cash flows.

The Foundation uses the allowance method to determine uncollectible pledges. The allowance is based on historical experience and management's analysis of specific balances.

(g) Intermediary Transactions

The Foundation, acting as an intermediary, receives cash contributions and pledges from individuals and businesses for a community partner. These donations are transferred to the designated recipient based on the donor's direction.

(h) Property and Equipment

It is the Foundation's policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment are capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. The cost of maintenance and repairs are charged to expense as incurred. Property and equipment are depreciated using the straight-line method over the estimated useful life of the assets.

(i) Contributions

Contributions are recorded when the donor makes an unconditional promise to give to the Foundation. Tangible contributions are recorded as contributions at their estimated value at the date of receipt. Contributed services or use of facilities\materials are recorded at their fair value at the time of the transaction.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions received with donor-imposed restrictions that are met in the same year in which the contributions are received are classified as unrestricted contributions.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

Contributions collected in counter-top canisters by retail corporate partners are recorded as receivables during the period in which they are summarized and reported by the partner. Remittance of these collected funds typically occurs within 90 days of the final report.

(j) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(k) Reclassifications

The classification of certain balances in the 2007 summarized total columns has been changed to conform to the 2008 presentation.

(l) Income Taxes

The Foundation is exempt from federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, the Foundation has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

NOTE 2: PRIOR YEAR SUMMARIZED FINANCIAL INFORMATION

The financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2007 from which the summarized information was derived.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 3: CASH AND CASH EQUIVALENTS

The Foundation has established an automated overnight investment account with a national banking institution. On a nightly basis, excess cash is swept from the Foundation's operating account and invested in overnight repurchase agreements. These short-term investments are reflected in the financial statements at fair value and are included as cash equivalents. At December 31, 2008, this investment's market value was \$1,644,213.

NOTE 4: CONTRIBUTIONS RECIEVABLE

Contributions receivable as of December 31, 2008 consist of unconditional pledges for scholarships, EIF Dallas local programming, and support services. Pledges due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 3.5% (prime benchmark). Pledges are reflected gross less an unamortized discount which is amortized over the life of the respective pledges.

The Foundation anticipates collection of contributions receivable as of December 31, 2008 as follows:

<u>Calendar Year</u>	<u>CURRENT</u>	<u>LONG TERM</u>
2009	\$ 2,278,338	
2010	-	450,000
2011	-	450,000
2012	-	150,000
Receivables, gross	<u>2,278,338</u>	<u>1,050,000</u>
Less: Unamortized Discount	<u>(4,091)</u>	<u>(59,846)</u>
Receivables, net	<u><u>\$ 2,274,247</u></u>	<u><u>\$ 990,154</u></u>

Contributions receivable are considered uncollectible and written off to uncollectible pledges when the donor withdraws the contribution commitment or fails to provide a reasonable revised schedule of contributions. An allowance for uncollectible receivables was not deemed necessary due to collection verification and past collection history of written pledges.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 5: PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2008 consist of the following:

	<u>Historical Cost</u>	<u>Accum Depreciation</u>	<u>Net Fixed Assets</u>
Computer Equipment (3-5 Year)	\$ 162,260	\$ (34,419)	\$ 127,841
Phone Equipment (5 Year)	15,827	(5,399)	10,428
Furniture & Fixtures (5 year)	26,218	(2,182)	24,036
	<u>\$ 204,305</u>	<u>\$ (42,000)</u>	<u>\$ 162,305</u>

NOTE 6: IN-KIND DONATIONS

In-kind contributions for the year ended December 31, 2008 were made up of the following:

	<u>Amount</u>
Central Office Space	\$ 136,032
Satellite Campus Space (4)	63,000
Legal Services	28,834
	<u>\$ 227,866</u>

NOTE 7: CONCENTRATION OF CREDIT RISKS

As of December 31, 2008, the Foundation maintained cash balances of approximately \$1,674,920 in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Foundation does not expect any losses related to this concentration.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 8: LEASE COMMITMENTS

The Foundation leases a 3 in 1 Copier. The following is a schedule of minimum lease payments required under the existing lease at December 31, 2008:

<u>Year Ended Dec 31,</u>	<u>Amount</u>
2009	3,600
2010	900
Total	<u><u>\$ 4,500</u></u>

□

Total rent expense paid for equipment during the year ended December 31, 2008 was \$3,876. The Foundation's space was donated to them during the year ending December 31, 2008.

NOTE 9: RETIREMENT PLAN

The Foundation has available, for all employees, an S-IRA retirement plan, which is managed by a third-party entity. Eligible employees can make contributions, subject to certain limitations, on a pretax basis. In addition, the Foundation makes a matching contribution to the plan of up to 3% of the employee's salary on an annual basis. The Foundation made a matching contribution in 2008 of \$6,612.

The Foundation has overfunded the program in prior years; the current balance at 12/31/2008 is \$33,060 of excess funds held by the third party on behalf of the Foundation.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 10: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2008 consist of cash and cash equivalent balances and contributions receivable and are available for the following purposes:

	<u>Amount</u>
National Scholarships	\$ 596,000
EIF Dallas Scholarships	256,000
EIF Dallas Program Activities	1,748,131
	<u>\$ 2,600,131</u>

NOTE 11: PERMENANTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of December 31, 2008.

NOTE 12: NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions as expenses were incurred which simultaneously satisfied the restricted purposes of the funds. Net assets released during the year ending December 31, 2008 are as follows:

National Scholarships	\$ 320,390
EIF Dallas Program Activities	1,352,843
Support Activities	579,790
	<u>\$ 2,253,023</u>