

**EDUCATION IS FREEDOM
FOUNDATION
FINANCIAL STATEMENTS
and
INDEPENDENT AUDITORS' REPORT
DECEMBER 31, 2010**

**EDUCATION IS FREEDOM FOUNDATION
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SALMON SIMS THOMAS

Accountants and Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Education Is Freedom Foundation

We have audited the accompanying statement of financial position of Education Is Freedom Foundation (a nonprofit organization) as of December 31, 2010, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Foundation's 2009 financial statements and, in our report dated March 29, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides 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 Education Is Freedom Foundation as of December 31, 2010, the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Salmon Sims Thomas & Associates

Salmon Sims Thomas & Associates
A Professional Limited Liability Company

Dallas, Texas
March 15, 2011

**EDUCATION IS FREEDOM FOUNDATION
STATEMENTS OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2010**

	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 429,468	\$ 897,375
Contributions receivable	2,124,795	2,138,873
Canister program receivable	-	95,350
Prepaid expenses	11,450	26,282
Total Current Assets	2,565,713	3,157,880
Property and Equipment		
Property and Equipment	417,268	393,157
Less: accumulated depreciation and amortization	(180,749)	(98,661)
Net Property and Equipment	236,519	294,496
Long-Term Contribution Receivable		
Long-term contributions receivable	250,000	600,000
Less: discount	(8,982)	(25,190)
Net Long-Term Contributions Receivable	241,018	574,810
TOTAL ASSETS	\$ 3,043,250	\$ 4,027,186
 LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable & accrued expenses	\$ 79,538	\$ 150,491
Accrued payroll & paid time off benefits	145,813	72,650
Pledges held for others	-	22,500
Total Current Liabilities	225,351	245,641
Net Assets		
Unrestricted		
Designated	50,000	567,000
Undesignated	1,900,621	1,728,616
Temporarily Restricted	867,278	1,485,929
Total Net Assets	2,817,899	3,781,545
TOTAL LIABILITIES AND NET ASSETS	\$ 3,043,250	\$ 4,027,186

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

EDUCATION IS FREEDOM FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2009)

	2010			Totals 2009
	Unrestricted	Temporarily Restricted	Total	
Revenues and Support				
Contributions and grants	\$ 2,328,438	\$ 931,381	\$ 3,259,819	\$ 2,276,322
Canister program contributions	-	-	-	248,002
In-kind contributions	278,881	-	278,881	181,090
Interest income	59	-	59	235
	<u>2,607,378</u>	<u>931,381</u>	<u>3,538,759</u>	<u>2,705,649</u>
Net assets released from restriction				
Satisfaction of program use	<u>1,550,032</u>	<u>(1,550,032)</u>	<u>-</u>	<u>-</u>
Total Revenues and Support	<u>4,157,410</u>	<u>(618,651)</u>	<u>3,538,759</u>	<u>2,705,649</u>
Expenses				
Program services	3,542,009	-	3,542,009	2,953,609
Development	467,362	-	467,362	450,990
Management and general	493,034	-	493,034	450,989
Total Expenses	<u>4,502,405</u>	<u>-</u>	<u>4,502,405</u>	<u>3,855,588</u>
Decrease in Net Assets	(344,995)	(618,651)	(963,646)	(1,149,939)
Net Assets, beginning of year	<u>\$ 2,295,616</u>	<u>\$ 1,485,929</u>	<u>\$ 3,781,545</u>	<u>\$ 4,931,484</u>
Net Assets, end of year	<u>\$ 1,950,621</u>	<u>\$ 867,278</u>	<u>\$ 2,817,899</u>	<u>\$ 3,781,545</u>

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

**EDUCATION IS FREEDOM FOUNDATION
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2009)**

<u>Natural Expense Categories</u>	<u>2010</u>			<u>Total</u>	<u>Total</u> <u>2009</u>
	<u>Program</u>	<u>Development</u>	<u>Mangement and General</u>		
Salaries and wages	\$1,829,060	\$ 235,787	\$ 214,259	\$2,279,106	\$1,647,441
Payroll tax expenses	136,286	14,113	27,501	177,900	118,675
Fringe benefits	248,155	29,868	25,531	303,554	166,208
Contract labor	26,801	901	1,068	28,770	185,280
Dues & subscriptions	3,751	3,854	9,352	16,957	11,117
Professional fees	151,661	22,843	90,066	264,570	198,972
Evaluation research	98,660	-	-	98,660	41,100
Office supplies	30,856	2,701	12,066	45,623	44,696
Computer technology	14,173	1,140	1,501	16,814	5,662
Program materials	237,390	1,827	5,242	244,459	256,244
Travel	18,395	4,864	282	23,541	64,954
Meals and entertainment	51,452	1,721	1,527	54,700	28,162
Occupancy	158,715	19,629	51,849	230,193	157,516
Equipment rental	3,923	725	3,211	7,859	8,005
Scholarships - national	25,500	-	-	25,500	29,000
Scholarships - local	143,809	-	-	143,809	384,592
Program events	147,957	38,022	-	185,979	138,049
Public relations	72,461	67,033	3,707	143,201	167,588
Telecommunications	40,244	4,281	8,745	53,270	62,828
Insurance	12,654	558	37	13,249	9,635
Other	32,598	5,186	24,819	62,603	73,203
Depreciation and amortization	57,508	12,309	12,271	82,088	56,661
	<u>\$ 3,542,009</u>	<u>\$ 467,362</u>	<u>\$ 493,034</u>	<u>\$ 4,502,405</u>	<u>\$ 3,855,588</u>

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

EDUCATION IS FREEDOM FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010
(WITH SUMMARIZED COMPARATIVE TOTALS FOR 2009)

	<u>2010</u>	<u>2009</u>
Cash Flows From Operating Activities		
Decrease in Net Assets	\$ (963,646)	\$ (1,149,939)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation and amortization expense	82,088	56,661
(Increase) decrease in assets:		
Contribution receivables	109,428	250,024
Prepaid expenses	14,832	(24,862)
Long term contributions receivable	333,792	415,344
Decrease in liabilities:		
Accounts payable and other liabilities	(20,290)	(135,921)
Net Cash Used by Operating Activities	<u>(443,796)</u>	<u>(588,693)</u>
 Cash Flows From Investing Activities		
Purchase of equipment	<u>(24,111)</u>	<u>(188,852)</u>
Net Cash Used by Investing Activities	<u>(24,111)</u>	<u>(188,852)</u>
 Net Decrease in Cash	(467,907)	(777,545)
 Cash and Cash Equivalents, beginning of year	<u>897,375</u>	<u>1,674,920</u>
 Cash and Cash Equivalents, end of year	<u>\$ 429,468</u>	<u>\$ 897,375</u>
 SUPPLEMENTAL INFORMATION		
Interest paid	<u>\$ -</u>	<u>\$ -</u>

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

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History, and Foundation

Education is Freedom Foundation (Foundation) is a nonprofit organization based in Dallas, Texas, that focuses on reducing the high school drop out 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 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 have 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 skill 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.

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

Use of Estimates - The preparation of financial statements in conformity with general 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 at least reasonably possible that the significant estimates used will change within the next year. Actual results could vary from estimates.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Presentation - Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of the Foundation and/or the passage of time.

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

Revenues are reported as increases in unrestricted net assets unless use of the related asset is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Expirations of temporarily restricted net assets (*i.e.*, the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Cash and Cash Equivalents - For purposes of the Statements of Cash Flows, the Foundation considers all short term investments with original maturity dates of ninety days or less to be cash equivalents. The Foundation places its cash and cash equivalents, which, at times, may exceed federally-insured limits, with high-credit quality institutions. The Foundation has not experienced any losses on such accounts.

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 cost and are included as cash equivalents. At December 31, 2010, the Foundation held cash equivalents of \$105,249.

Contributed Goods and Services - During the year ended December 31, 2010, the Foundation received \$278,881 of contributed goods and services meeting the accounting requirement for recognition in the financial statements. Of this amount, donated professional services were approximately \$77,000 and donated office space and equipment usage was approximately \$202,000.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contribution Receivables and Promise to Give - Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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.

Contributions receivable are considered past due when payments are not made under the terms of the contribution agreement. There were no past due contributions receivable at December 31, 2010 and no provision was made for uncollectible receivables as of that date. 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.

Concentrations of Risk - The Dallas Independent School District (DISD) provides significant levels of direct and indirect support to the Foundation. Office space and general office support are provided based on an informal agreement. Approximately 56% of the Foundation's contributions received in 2010 are attributable to DISD's support.

Property, Equipment and Depreciation and Amortization - Property and equipment are stated at cost, or estimated fair market value if donated at the date the equipment is donated, less accumulated depreciation and amortization. Major expenditures and expenditures which substantially increase useful lives are capitalized. Maintenance, repairs and replacements, which do not improve or extend the lives of the respective assets, are expensed when incurred. When property and equipment is sold or otherwise disposed of, the asset and related accumulated depreciation and amortization are removed, and any gain or loss is included in income.

Depreciation and amortization is provided for over the estimated useful lives of the assets using the straight-line method as follows:

Computer equipment and software	3-5 years
Phone equipment	5 years
Furniture and fixtures	5 years

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments - Financial Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The Foundation did not hold assets subject to fair value reporting on a recurring basis as of December 31, 2010. The statement did not have an impact on the Foundation's nonfinancial assets and nonfinancial liabilities that are not permitted or required to be measured at fair value on a recurring basis.

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 was determined by the Internal Revenue Service to not be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

Accounting for Uncertainty in Income Taxes - Management has concluded that any tax positions that would not meet the more-likely-than-not criterion of FASB ASC 740-10 would be immaterial to the financial statements taken as a whole. Accordingly, the accompanying financial statements do not include any provision for uncertain tax positions, and no related interest or penalties have been recorded in the statement of activities or accrued on the statement of financial position. Federal and state tax returns of the entity are generally open to examination by the relevant taxing authority for a period of three years from the date the returns are filed.

Functional Allocation of Expenses - The costs of providing the various programs and supporting services have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Compensated Absences - It is the Foundation's policy to accumulate earned but unused paid time off, of which a portion will be paid to employees upon separation from service. The accompanying financial statements reflect an accrued liability of \$56,396 for paid time off earned but not taken as of December 31, 2010.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications - Certain 2009 amounts have been reclassified to conform to 2010 presentation.

Date of Management's Report - The Foundation has evaluated subsequent events through March 15, 2011, the date the financial statements were available to be issued.

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, 2009 from which the summarized information was derived.

NOTE 3: CONTRIBUTIONS RECEIVABLE AND PROMISES TO GIVE

Contributions receivable at December 31, 2010 consisted of unconditional pledges for scholarships, EIF Dallas local programming, and support services. Pledges due in more than one year are reflected at present value of estimated future cash flows using a discount rate of 3.25% (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 receivables as of December 31, 2010 as follows:

2011	\$ 2,124,795
2012	225,000
2013	<u>25,000</u>
Receivables, gross	2,374,795
Less: Unamortized Discount	<u>(8,982)</u>
Receivables, net	<u>\$ 2,365,813</u>

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010 consisted of cash and cash equivalent balances and contributions receivable and are available for the following purposes:

EIF Dallas Program Activities	\$ 867,278
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NOTE 5: NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets released from donor restrictions as expenses were included which simultaneously satisfied the restricted purposes of the funds. Net assets released during the year ended December 31, 2010 were as follows:

EIF Dallas Program Activities	\$ 1,550,032
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NOTE 6: DESIGNATED NET ASSETS

Designated net assets at December 31, 2010 are as follows:

National Scholarships	\$ 50,000
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NOTE 7: IN-KIND DONATIONS

For the year ended December 31, 2010 the Foundation received and recognized contributed goods and services approximately as follows:

Donated services	\$ 77,000
Donated rent	<u>202,000</u>
	<u>\$ 279,000</u>

These amounts are included as unrestricted contributions and expenses in the accompanying financial statements.

EDUCATION IS FREEDOM FOUNDATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

NOTE 8: RETIREMENT PLAN

The Foundation has available, for all employees, a SEP-IRA retirement plan, which is managed by a third-party entity. Eligible employees can make contributions, subject to certain limitations, on a pretax basis. Further, 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 2010 of \$32,048.

NOTE 9: PROPERTY AND EQUIPMENT

Property and Equipment at December 31, 2010 consisted of the following:

Computer equipment and software	\$ 332,806
Phone equipment	15,827
Furniture and Fixtures	<u>68,635</u>
	417,268
Accumulated depreciation and amortization	<u>(180,749)</u>
Net Property and Equipment	\$ <u>236,519</u>