

Pratham, USA

Financial Statements

December 31, 2012 and 2011

Pratham, USA
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Pratham, USA

We have audited the accompanying financial statements of Pratham, USA (a non-profit organization) which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, cash flows and functional expenses 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 U.S. generally accepted accounting principles; 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 misstatements, 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 U.S. generally accepted auditing standards. 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 auditors' 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 the entity'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 the entity'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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pratham, USA. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Pannell Kerr Forster of Texas, P.C.

November 10, 2013

Pratham, USA

Statements of Financial Position

	December 31,	
	2012	2011
		(Restated)
Assets		
Current assets		
Cash and cash equivalents	\$ 3,496,163	\$ 3,898,550
Investments	20,538	339,809
Pledges receivable	1,194,003	3,204,763
Other receivables	402,025	239,137
Prepaid expenses	<u>-</u>	<u>15,103</u>
Total current assets	<u>5,112,729</u>	<u>7,697,362</u>
Pledges receivable, non-current	75,188	796,165
Other assets	<u>2,477</u>	<u>2,477</u>
Total assets	<u>\$ 5,190,394</u>	<u>\$ 8,496,004</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>\$ 7,414</u>	<u>\$ 21,767</u>
Total current liabilities	<u>7,414</u>	<u>21,767</u>
Net assets		
Unrestricted	3,956,288	4,288,308
Temporarily restricted	<u>1,226,692</u>	<u>4,185,929</u>
Total net assets	<u>5,182,980</u>	<u>8,474,237</u>
Total liabilities and net assets	<u>\$ 5,190,394</u>	<u>\$ 8,496,004</u>

See notes to financial statements.

Pratham, USA

Statements of Activities

	Years Ended December 31,	
	2012	2011 (Restated)
Changes in unrestricted net assets		
Revenues and other support		
Contributions	\$ 2,153,754	\$ 1,702,144
Foundation grants	1,515,615	2,455,938
Special events	3,651,610	3,007,632
Less: direct benefit to donors	(555,129)	(485,511)
Other income	<u>3,640</u>	<u>79,575</u>
Total revenues and other support	<u>6,769,490</u>	<u>6,759,778</u>
Net assets released from restriction		
Expiration of time restrictions	<u>3,595,763</u>	<u>3,677,869</u>
Total unrestricted revenues and other support	<u>10,365,253</u>	<u>10,437,647</u>
Expenditures		
Program support expenses	9,862,187	8,131,344
General and administrative expenses	251,329	194,948
Fundraising expenses	<u>583,757</u>	<u>463,241</u>
Total expenditures	<u>10,697,273</u>	<u>8,789,533</u>
Increase (decrease) in unrestricted net assets	<u>(332,020)</u>	<u>1,648,114</u>
Changes in temporarily restricted net assets		
Contributions	636,526	3,262,224
Net assets released from restriction	<u>(3,595,763)</u>	<u>(3,677,869)</u>
Decrease in temporarily restricted net assets	<u>(2,959,237)</u>	<u>(415,645)</u>
Increase (decrease) in net assets	<u>(3,291,257)</u>	<u>1,232,469</u>
Net assets, beginning of year	<u>8,474,237</u>	<u>7,241,768</u>
Net assets, end of year	<u>\$ 5,182,980</u>	<u>\$ 8,474,237</u>

See notes to financial statements.

Pratham, USA

Statements of Cash Flows

	Years Ended December 31,	
	2012	2011
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (3,291,257)	\$ 1,232,469
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Contribution of investments	(20,538)	(31,974)
Gain on sale of investments	(42)	(74,710)
Bad debt	300	-
Changes in operating assets and liabilities		
Pledges receivable	2,731,437	453,491
Other receivables	(162,888)	(84,128)
Prepaid expenses	15,103	(4,603)
Other assets	-	647
Accounts payable	(14,353)	(3,061)
Net cash provided by (used in) operating activities	<u>(742,238)</u>	<u>1,488,131</u>
Cash flows from investing activities		
Purchase of investments	-	(1,159)
Proceeds from sales of investments	<u>339,851</u>	<u>420,689</u>
Net cash provided by investing activities	<u>339,851</u>	<u>419,530</u>
Net increase (decrease) in cash and cash equivalents	(402,387)	1,907,661
Cash and cash equivalents, beginning of year	<u>3,898,550</u>	<u>1,990,889</u>
Cash and cash equivalents, end of year	<u>\$ 3,496,163</u>	<u>\$ 3,898,550</u>

See notes to financial statements.

Pratham, USA

Statements of Functional Expenses

	Program Support	Supporting Services		Total Expenditures
		General and Administrative	Fundraising	
Year ended December 31, 2012				
Expense category:				
Program	\$ 9,848,656	\$ -	\$ -	\$ 9,848,656
Salary	13,531	191,188	267,117	471,836
Office	-	53,534	28,350	81,884
Publicity	-	-	53,103	53,103
Other	-	70	-	70
Fundraising	-	6,537	235,187	241,724
	<u>\$ 9,862,187</u>	<u>\$ 251,329</u>	<u>\$ 583,757</u>	<u>\$ 10,697,273</u>
Year ended December 31, 2011				
Expense category:				
Program	\$ 8,075,439	\$ -	\$ -	\$ 8,075,439
Salary	19,905	156,689	156,124	332,718
Office	-	30,217	8,528	38,745
Publicity	-	286	108,012	108,298
Other	36,000	3,500	7,626	47,126
Fundraising	-	4,256	182,951	187,207
	<u>\$ 8,131,344</u>	<u>\$ 194,948</u>	<u>\$ 463,241</u>	<u>\$ 8,789,533</u>

See notes to financial statements.

Pratham, USA

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting PoliciesNature of operations

Pratham, USA (the "Foundation") was incorporated in 1999 to raise funds to support Pratham India's work of promoting literacy efforts among the underprivileged children living in city slums and/or rural communities in India. Pratham, USA also facilitates volunteerism among youths in the United States of America via internship programs in India to learn the problems of illiteracy.

Pratham, USA supports several of Pratham India's programs which are developed based upon a detailed survey of the community and may include preschools, tutorial programs, health initiatives, library program and other educational outlets.

The Foundation has received monetary contributions from corporate and individual donors. The Foundation has also received certain non-monetary contributions of services and volunteer assistance. The continuing success of the Foundation is dependent upon the monetary support from donors. Management is continuing fundraising efforts to address the Foundation's monetary needs and taking actions to increase funding levels and control costs. During 2012 and 2011, one donor accounted for 20% and 14% of revenues, respectively.

Income tax status

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. It recognizes the impact of an uncertain tax position only if that position is more likely than not of being sustained upon examination by the taxing authority based on the technical merits. The Foundation will account for interest and penalties relating to uncertain tax positions in the current period statement of activities, if necessary. The tax years from 2009 to 2011 are open for examination by the Internal Revenue Service.

Basis of presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which require classification of the Foundation's net assets and its revenues, expenses, gains and losses into three categories, based on the existence or absence of donor-imposed restrictions. The categories are permanently restricted, temporarily restricted and unrestricted net assets.

- Permanently restricted - net assets subject to donor-imposed stipulations that such assets be maintained permanently. The Foundation does not currently have any permanently restricted net assets.
- Temporarily restricted - net assets whose use is subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by passage of time.
- Unrestricted - net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of the Foundation or may otherwise be limited by contractual agreements with outside parties.

Pratham, USA

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (Continued)

Cash and cash equivalents

Cash and cash equivalents consist of highly liquid investments that are readily convertible into cash and have an original maturity of three months or less on the date of acquisition. The significant balances of cash and cash equivalents in 2012 and 2011 are largely due to significant donations received shortly before year end.

Short-term investments

Accounting Standards Codification ("ASC") 958, "*Not-for-Profit Entities*," ("ASC 958") establishes standards for accounting for certain investments held by not-for-profit organizations. The statement requires that investments in equity securities with readily determinable fair values are reported at fair value with gains and losses included in the statements of activities. See Note 2 for discussion of fair value measurements.

Pledges receivable

Contributions, which include unconditional promises to give, are recognized as revenues in the period received. Pledges receivable classified under current assets consist of unconditional promises to give that are expected to be received within one year and are recorded at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met. A conditional promise to give is considered unconditional if the possibility that the condition will not be met is remote.

Functional expenses

The costs of providing various programs and other activities during 2012 and 2011 have been summarized on a functional basis in the statements of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services on the basis of estimated time expended or usage by function.

Donated services and materials

Individuals contribute services to assist in the furtherance of the Foundation's mission and objectives. In accordance with ASC 958, the fair value of donated services are to be recognized in the financial statements if the services either create or enhance a non-financial asset or requires specialized skills, are provided by entities or persons possessing those skills, and would be purchased if they were not donated. Contributed services not meeting the requirements for recognition are not recorded in its financial statements.

Advertising costs

Advertising costs are expensed as incurred. The Foundation expensed approximately \$60,000 and \$115,000 in marketing and promotion costs for the years ended December 31, 2012 and 2011, respectively.

Pratham, USA

Notes to Financial Statements

December 31, 2012 and 2011

Note 1 - Summary of Significant Accounting Policies (Continued)Financial instruments, credit risk and concentration of credit risk

Financial instruments which potentially subject the Foundation to credit risk include cash and cash equivalents, investments and unconditional promises to give. Cash and cash equivalents deposited in demand accounts and investments in certificates of deposit are with federally-insured institutions to minimize risk. From time to time, the balances in these accounts may exceed the federally-insured limits. The Foundation has not incurred losses related to these deposits. The investments in equity securities in general are exposed to various risks such as interest rate, market volatility, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

Unconditional promises to give consist of contributions receivable from individuals, private foundations and corporations across the U.S. The Foundation regularly reviews contributions receivable and makes provision for potentially uncollectible balances. During 2012 and 2011, the Foundation did not write-off any pledges receivable which management deemed as uncollectible. As of December 31, 2012 and 2011, management believed the Foundation had incurred no other material impairments in the carrying values of its contributions receivable. The carrying values of the Foundation's financial instruments approximated their fair values as of December 31, 2012 and 2011.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management believes its estimates are reasonable.

Note 2 - Fair Value Measurements

The Foundation uses a three-level hierarchy for disclosure of the fair value of its cash and cash equivalents and its investments. This hierarchy is based on the transparency of inputs to the valuation process as follows:

- Level 1 – observable inputs such as quoted prices in active markets at the measurement date for identical assets or liabilities.
- Level 2 – other inputs that are observable directly or indirectly such as quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Pratham, USA

Notes to Financial Statements

December 31, 2012 and 2011

Note 2 - Fair Value Measurements (Continued)

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

- Money market – valued daily at the net asset value of shares or units held by the Foundation based on the quoted market value of the underlying assets.
- Equity securities – valued daily using quoted market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the valuation methods are considered appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The Foundation's cash and cash equivalents and its investments classified as Level 1 are as follows as of December 31:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		
Money market	\$ 1,343,947	\$ 1,434,026
Cash in bank	<u>2,152,216</u>	<u>2,464,524</u>
Total cash and cash equivalents	<u>\$ 3,496,163</u>	<u>\$ 3,898,550</u>
Investments		
Certificates of deposit	\$ -	\$ 336,594
Equity securities		
Technology	20,538	-
Others	<u>-</u>	<u>3,215</u>
Total equity securities	<u>20,538</u>	<u>3,215</u>
Total investments	<u>\$ 20,538</u>	<u>\$ 339,809</u>

Pratham, USA

Notes to Financial Statements

December 31, 2012 and 2011

Note 3 - Temporarily Restricted Net Assets

During the year, Pratham management made a determination that a foundation grant of \$139,668 pledged in 2011 should have been recorded as a temporarily restricted contribution in the same year. Management considers the non-recording of such pledge an error since the chance that the condition for which the pledge was made will not occur was remote.

The effect of the restatement adjustments on the statement of financial position at December 31, 2011 follows:

Pledges receivable	
As previously reported	\$ 3,065,095
Non-recording of pledges received	<u>139,668</u>
Pledges receivable, as restated	<u>\$ 3,204,763</u>
Temporarily restricted	
As previously reported	\$ 4,046,261
Non-recording of pledges received	<u>139,668</u>
Temporarily restricted, as restated	<u>\$ 4,185,929</u>

Restricted contributions received which are recorded as pledges receivable and whose restriction expires with the passage of time are as follows:

Year Ending <u>December 31,</u>	
2013	\$ 1,151,504
2014	<u>75,188</u>
Total restricted contributions	<u>\$ 1,226,692</u>

Note 4 - Subsequent Events

Management has evaluated subsequent events as of November 10, 2013 which was the date the financial statements were available to be issued, and has determined that there are no subsequent events to be disclosed.