

Pratham USA

Financial Statements

December 31, 2014 and 2013

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 nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, 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 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 U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits 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, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Pannell Kerr Forster of Texas, P.C.

July 28, 2015

Pratham USA

Statements of Financial Position

	December 31,	
	2014	2013
Assets		
Current assets		
Cash and cash equivalents	\$ 7,170,152	\$ 4,000,963
Investments	14,576	29,081
Unconditional promises to give	4,149,384	3,263,303
Prepaid expenses	18,276	18,145
Total current assets	<u>11,352,388</u>	<u>7,311,492</u>
Unconditional promises to give, non-current	275,188	3,183,388
Other assets	4,964	2,072
Total assets	<u>\$ 11,632,540</u>	<u>\$ 10,496,952</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 36,805	\$ 126,956
Total current liabilities	<u>36,805</u>	<u>126,956</u>
Net assets		
Unrestricted	3,017,177	4,405,867
Temporarily restricted	8,578,558	5,964,129
Total net assets	<u>11,595,735</u>	<u>10,369,996</u>
Total liabilities and net assets	<u>\$ 11,632,540</u>	<u>\$ 10,496,952</u>

See notes to financial statements.

Pratham USA

Statements of Activities

	<u>Year Ended December 31,</u>	
	<u>2014</u>	<u>2013</u>
Changes in unrestricted net assets		
Revenues and other supports		
Contributions	\$ 4,333,522	\$ 3,537,565
Foundation grants	492,000	606,000
Special events	4,807,010	4,073,079
Less: direct benefit to donors	(833,787)	(551,866)
Other income	<u>4,518</u>	<u>1,335</u>
Total revenues and other supports	<u>8,803,263</u>	<u>7,666,113</u>
Net assets released from restriction		
Expiration of time and program restrictions	<u>2,280,740</u>	<u>3,529,003</u>
Total unrestricted revenues and other supports	<u>11,084,003</u>	<u>11,195,116</u>
Expenditures		
Program support expenses	10,842,552	9,690,718
General and administrative expenses	407,448	169,228
Fundraising expenses	<u>1,222,693</u>	<u>885,591</u>
Total expenditures	<u>12,472,693</u>	<u>10,745,537</u>
Increase (decrease) in unrestricted net assets	<u>(1,388,690)</u>	<u>449,579</u>
Changes in temporarily restricted net assets		
Contributions	4,114,700	-
Foundation grants	274,000	8,266,440
Special events	506,469	-
Net assets released from restriction	<u>(2,280,740)</u>	<u>(3,529,003)</u>
Increase in temporarily restricted net assets	<u>2,614,429</u>	<u>4,737,437</u>
Increase in net assets	<u>1,225,739</u>	<u>5,187,016</u>
Net assets, beginning of year	<u>10,369,996</u>	<u>5,182,980</u>
Net assets, end of year	<u>\$ 11,595,735</u>	<u>\$ 10,369,996</u>

See notes to financial statements.

Pratham USA

Statements of Cash Flows

	Year Ended December 31,	
	2014	2013
Cash flows from operating activities:		
Increase in net assets	\$ 1,225,739	\$ 5,187,016
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Donated securities	(174,147)	(29,081)
Gain on sale of investments	(1,053)	-
Bad debt	9,750	130,000
Changes in operating assets and liabilities		
Unconditional promises to give	2,012,369	(5,307,500)
Prepaid expenses	(131)	(18,145)
Other assets	(2,892)	405
Accounts payable	(90,151)	119,542
Net cash provided by operating activities	<u>2,979,484</u>	<u>82,237</u>
Cash flows from investing activities:		
Proceeds from sales of investments	<u>189,705</u>	<u>20,538</u>
Net cash provided by investing activities	<u>189,705</u>	<u>20,538</u>
Net increase in cash and cash equivalents	3,169,189	102,775
Cash and cash equivalents - beginning of year	<u>4,000,963</u>	<u>3,898,188</u>
Cash and cash equivalents - end of year	<u>\$ 7,170,152</u>	<u>\$ 4,000,963</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, 2014				
Expense category:				
Program	\$ 10,808,593	\$ -	\$ -	\$ 10,808,593
Salary	33,959	274,025	536,449	844,433
Office	-	96,820	11,755	108,575
Publicity	-	-	146,791	146,791
Bad debt	-	-	9,750	9,750
Other	-	35,981	63,862	99,843
Fundraising	-	622	454,086	454,708
	<u>\$ 10,842,552</u>	<u>\$ 407,448</u>	<u>\$ 1,222,693</u>	<u>\$ 12,472,693</u>
Year ended December 31, 2013				
Expense category:				
Program	\$ 9,690,718	\$ -	\$ -	\$ 9,690,718
Salary	-	99,848	327,237	427,085
Office	-	63,294	19,338	82,632
Publicity	-	2,566	23,898	26,464
Bad debt	-	-	130,000	130,000
Other	-	1,363	-	1,363
Fundraising	-	2,157	385,118	387,275
	<u>\$ 9,690,718</u>	<u>\$ 169,228</u>	<u>\$ 885,591</u>	<u>\$ 10,745,537</u>

See notes to financial statements.

Pratham USA

Notes to Financial Statements

December 31, 2014 and 2013

Note 1 - Summary of Significant Accounting PoliciesNature of operations

Pratham USA (the "Foundation") was formed in 1999 to raise funds to support Pratham Education Foundation's ("PEF") work of promoting literacy efforts among the underprivileged children and livelihoods of youth living in both urban and rural communities in India. The Foundation also facilitates volunteerism among youth and adults in the United States of America via internship programs in India to learn the problems of illiteracy.

The Foundation supports several of PEF's programs which are developed based upon a detailed survey of the community and may include preschools, tutorial programs, health initiatives, library programs and other educational interventions.

The Foundation receives monetary contributions from corporations, foundations and individual donors. During 2014 and 2013, one donor accounted for 41% and 35% 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 after 2010 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. Those categories are:

- 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, 2014 and 2013

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 2014 and 2013 are largely due to significant donations received before year end.

Investments

Investments in marketable securities with readily determinable fair values are reported at fair value in the statements of financial position. Gains and losses are included in the change in net assets in the statements of activities. See Note 2 for discussion of fair value measurements.

Promises 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. Non-current unconditional promises to give are expected to be collected in 2016. 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.

The Foundation uses the allowance method to determine uncollectible promises to give. The allowance, if any, is based on historical experience and management's analysis of specific promises made. Unconditional promises to give were considered to be collectible by management at December 31, 2014 and 2013, therefore no allowance was necessary.

Functional expenses

The costs of providing various programs and other activities during 2014 and 2013 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. Fair value of donated services are recognized in the financial statements only 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. There were no contributed services that met this definition or were recorded during the years ended December 31, 2014 and 2013.

Advertising costs

Advertising costs are expensed as incurred. The Foundation expensed approximately \$162,000 and \$35,000 in marketing and promotion costs for the years ended December 31, 2014 and 2013, respectively.

Pratham USA

Notes to Financial Statements

December 31, 2014 and 2013

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 are deposited in demand accounts 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 marketable securities 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. Although the Foundation is directly affected by the financial stability of its donors, management does not believe significant credit risk exists at December 31, 2014.

Carrying values of the Foundation's financial instruments approximate their fair values due to their short-term maturities or because the terms are similar to market terms. There have been no changes in the methodologies used at December 31, 2014 and 2013.

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.

Reclassifications

Certain reclassification have been made to the 2013 financial statements to conform to the 2014 financial statement presentation. Such reclassifications have no effect on previously reported change in net assets or total net assets.

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.

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Notes to Financial Statements

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Note 2 - Fair Value Measurements (Continued)

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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>2014</u>	<u>2013</u>
Cash and cash equivalents		
Money market	\$ 25,664	\$ 21,189
Cash in bank	6,950,480	3,749,726
Undeposited funds	<u>194,008</u>	<u>230,048</u>
Total cash and cash equivalents	<u>\$ 7,170,152</u>	<u>\$ 4,000,963</u>
Investments		
Equity securities		
Technology	\$ 12,681	\$ 28,087
Others	<u>1,895</u>	<u>994</u>
Total investments	<u>\$ 14,576</u>	<u>\$ 29,081</u>

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Notes to Financial Statements

December 31, 2014 and 2013

Note 3 - Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, consist of the following:

	<u>2014</u>	<u>2013</u>
Program restrictions:		
Vocational education programs	\$ 4,243,000	\$ -
Read India	3,118,477	4,139,129
Annual status of education report	921,860	1,825,000
Open school education programs	120,000	-
Other programs	<u>175,221</u>	<u>-</u>
	<u>\$ 8,578,558</u>	<u>\$ 5,964,129</u>

Note 4 - Subsequent Events

Management has evaluated subsequent events as of July 28, 2015 which was the date the financial statements were available to be issued, and has determined that there are no subsequent events to be disclosed.