

Pratham USA

Financial Statements

December 31, 2017 and 2016

Pratham USA

December 31, 2017 and 2016

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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, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to 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, 2017 and 2016, and the changes in its net assets, cash flows and functional expenses for the years then ended in accordance with U.S. generally accepted accounting principles.

Pannell Kerr Forster of Texas, P.C.

August 20, 2018

Pratham USA

Statements of Financial Position

	December 31,	
	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 3,478,076	\$ 1,144,355
Investments	11,359	94,547
Unconditional promises to give	7,551,079	6,013,037
Prepaid expenses	<u>121,462</u>	<u>35,880</u>
Total current assets	<u>11,161,976</u>	<u>7,287,819</u>
Unconditional promises to give, non-current	1,274,775	3,890,646
Restricted cash	250,000	-
Other assets	<u>12,276</u>	<u>2,092</u>
Total assets	<u>\$ 12,699,027</u>	<u>\$ 11,180,557</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>\$ 210,524</u>	<u>\$ 124,119</u>
Total current liabilities	<u>210,524</u>	<u>124,119</u>
Net assets		
Unrestricted	2,617,340	1,533,996
Temporarily restricted	<u>9,871,163</u>	<u>9,522,442</u>
Total net assets	<u>12,488,503</u>	<u>11,056,438</u>
Total liabilities and net assets	<u>\$ 12,699,027</u>	<u>\$ 11,180,557</u>

See notes to financial statements.

Pratham USA

Statements of Activities

	Year Ended December 31,	
	2017	2016
Changes in unrestricted net assets		
Revenues and other supports		
Contributions	\$ 5,559,372	\$ 2,739,704
Foundation grants	3,869,630	6,030,466
Special events	6,870,311	4,990,603
Less: direct benefit to donors	(943,143)	(831,577)
Other income	30,789	124
Total revenues and other supports	<u>15,386,959</u>	<u>12,929,320</u>
Net assets released from restriction		
Expiration of time and program restrictions	<u>4,943,365</u>	<u>3,594,835</u>
Total unrestricted revenues and other supports	<u>20,330,324</u>	<u>16,524,155</u>
Expenditures		
Program support expenses	16,883,286	15,006,248
General and administrative expenses	553,095	483,564
Fundraising expenses	<u>1,810,599</u>	<u>1,308,961</u>
Total expenditures	<u>19,246,980</u>	<u>16,798,773</u>
Increase (decrease) in unrestricted net assets	<u>1,083,344</u>	<u>(274,618)</u>
Changes in temporarily restricted net assets		
Contributions	2,043,411	520,455
Foundation grants	3,083,000	7,005,369
Special events	101,396	61,618
Other income	64,279	-
Net assets released from restriction	<u>(4,943,365)</u>	<u>(3,594,835)</u>
Increase in temporarily restricted net assets	<u>348,721</u>	<u>3,992,607</u>
Increase in net assets	<u>1,432,065</u>	<u>3,717,989</u>
Net assets, beginning of year	<u>11,056,438</u>	<u>7,338,449</u>
Net assets, end of year	<u>\$ 12,488,503</u>	<u>\$ 11,056,438</u>

See notes to financial statements.

Pratham USA

Statements of Cash Flows

	Year Ended December 31,	
	2017	2016
Cash flows from operating activities:		
Increase in net assets	\$ 1,432,065	\$ 3,717,989
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:		
Donated securities	(173,467)	(179,281)
Gain on sale of donated securities	(1,986)	(103)
Bad debt	3,125	8,000
Changes in operating assets and liabilities		
Proceeds from sale of donated securities	258,641	99,171
Unconditional promises to give	1,074,704	(5,907,637)
Prepaid expenses	(85,582)	(15,310)
Other assets	(10,184)	851
Accounts payable	86,405	(4,526)
Net cash provided by (used in) operating activities	<u>2,583,721</u>	<u>(2,280,846)</u>
Net change in cash, cash equivalents, and restricted cash	2,583,721	(2,280,846)
Cash, cash equivalents and restricted cash - beginning of year	<u>1,144,355</u>	<u>3,425,201</u>
Cash, cash equivalents and restricted cash - end of year	\$ <u>3,728,076</u>	\$ <u>1,144,355</u>
Cash and cash equivalents	\$ 3,478,076	\$ 1,144,355
Restricted cash	<u>250,000</u>	<u>-</u>
Total cash, cash equivalents and restricted cash	\$ <u>3,728,076</u>	\$ <u>1,144,355</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, 2017				
Expense category:				
Program	\$ 16,840,873	\$ -	\$ -	\$ 16,840,873
Salary	42,413	403,179	942,801	1,388,393
Office	-	149,849	21,784	171,633
Publicity	-	67	31,715	31,782
Bad debt	-	-	3,125	3,125
Other	-	-	13,725	13,725
Fundraising	-	-	797,449	797,449
	<u>\$ 16,883,286</u>	<u>\$ 553,095</u>	<u>\$ 1,810,599</u>	<u>\$ 19,246,980</u>
Year ended December 31, 2016				
Expense category:				
Program	\$ 14,968,748	\$ -	\$ -	\$ 14,968,748
Salary	37,500	327,096	557,365	921,961
Office	-	156,053	35,859	191,912
Publicity	-	415	52,593	53,008
Bad debt	-	-	8,000	8,000
Other	-	-	20,796	20,796
Fundraising	-	-	634,348	634,348
	<u>\$ 15,006,248</u>	<u>\$ 483,564</u>	<u>\$ 1,308,961</u>	<u>\$ 16,798,773</u>

See notes to financial statements.

Pratham USA

Notes to Financial Statements

December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting PoliciesNature of operations

Pratham USA (the "Organization") 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 Organization 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 Organization supports several of PEF's programs, which are developed based upon needs assessment of communities and Government Schools and may include preschools, tutorial programs, library programs and other educational interventions including use of technology.

The Organization receives monetary contributions from corporations, foundations and individual donors. During 2017 and 2016, two donors accounted for approximately 33% and 30% of revenues, respectively.

Income tax status

The Organization 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 Organization accounts for interest and penalties relating to uncertain tax positions in the current period statement of activities, if necessary.

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 Organization'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 Organization 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 Organization 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 Organization or may otherwise be limited by contractual agreements with outside parties.

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 2017 and 2016 are largely due to significant donations received before year end.

Pratham USA

Notes to Financial Statements

December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies (Continued)Restricted cash

The Organization had restricted cash at December 31, 2017 of \$250,000 that is required to be held in a separate account by the donor and be used for scholarships over a ten-year period ending in 2027. There were no restricted cash amounts at December 31, 2016.

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 Organization 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 through 2020. 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 Organization 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, 2017 and 2016, therefore no allowance was necessary.

Functional expenses

The costs of providing various programs and other activities during 2017 and 2016 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 Organization'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. During the years ended December 31, 2017 and 2016, \$22,825 and \$15,796 of contributed legal and other services were recorded in the statements of activities, respectively.

Pratham USA

Notes to Financial Statements

December 31, 2017 and 2016

Note 1 - Summary of Significant Accounting Policies (Continued)Advertising costs

Advertising costs are expensed as incurred. The Organization expensed approximately \$42,000 and \$57,000 in marketing and promotion costs for the years ended December 31, 2017 and 2016, respectively.

Financial instruments, credit risk and concentration of credit risk

Financial instruments that potentially subject the Organization 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 Organization 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 and Switzerland. Although the Organization is directly affected by the financial stability of its donors, management does not believe significant credit risk exists at December 31, 2017.

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.

Recent accounting pronouncements

The Financial Accounting Standards Board ("FASB") issued new accounting guidance to clarify reporting requirements of restricted cash in the statement of cash flows. The guidance states the statement of cash flows shall explain the change during the period in total cash, which includes cash, cash equivalents and restricted cash. The amendments in this guidance are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has implemented the guidance during the year ended December 31, 2017, with no impact to the 2016 reported amounts.

In August 2016, the FASB issued an accounting standards update ("ASU") for not-for-profit entities. The ASU was issued to provide more clarity about a not-for-profit entity's liquidity, financial performance, and cash flows. The ASU includes many provisions, including the requirement of additional disclosures regarding the liquidity of the organization, a presentation of expenses by function and natural classification, and presentation of two net asset classes instead of three. The amendments in this guidance are effective for fiscal years beginning after December 15, 2017. The Organization is still evaluating the impact that the ASU will have on its financial statements and related disclosures and has not yet adopted the standard.

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Notes to Financial Statements

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Note 2 - Fair Value Measurements

The Organization 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.

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 Organization 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 Organization's cash, cash equivalents, restricted cash, and investments classified as Level 1 are as follows at December 31:

	<u>2017</u>	<u>2016</u>
Cash, cash equivalents, and restricted cash		
Money market	\$ 1,102	\$ -
Cash in bank	3,304,638	674,580
Undeposited funds	<u>422,336</u>	<u>469,775</u>
Total cash, cash equivalents and restricted cash	<u>\$ 3,728,076</u>	<u>\$ 1,144,355</u>
Investments		
Equity securities		
Technology	\$ 4,905	\$ 90,266
Others	<u>6,454</u>	<u>4,281</u>
Total investments	<u>\$ 11,359</u>	<u>\$ 94,547</u>

Pratham USA

Notes to Financial Statements

December 31, 2017 and 2016

Note 3 - Temporarily Restricted Net Assets

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

	<u>2017</u>	<u>2016</u>
Purpose restrictions:		
Vocational education programs	\$ 3,247,500	\$ 1,140,000
Read India	1,519,565	3,663,677
Annual status of education report (ASER)	550,000	1,153,169
Open school education programs	639,844	1,008,378
Technology	1,525,000	2,502,500
Hybrid Learning	1,545,500	-
Measurement, monitoring and evaluation	450,000	-
Scholarship fund	250,000	-
Other programs	<u>53,241</u>	<u>54,718</u>
	<u>9,780,650</u>	<u>9,522,442</u>
Time restricted:		
Future year operations	<u>90,513</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 9,871,163</u>	<u>\$ 9,522,442</u>

Note 4 - Subsequent Events

Management has evaluated subsequent events as of August 20, 2018 which was the date the financial statements were available for issuance, and has determined that there are no subsequent events to be reported.