

Pratham USA

Financial Statements

December 31, 2018 and 2017

Pratham USA
December 31, 2018 and 2017

Table of Contents

| | <u>Page(s)</u> |
|---|----------------|
| Independent Auditors' Report | 1 |
| Statements of Financial Position..... | 2 |
| Statements of Activities | 3 |
| Statements of Cash Flows..... | 4 |
| Statements of Functional Expenses | 5 |
| Notes to Financial Statements..... | 6-11 |

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, 2018 and 2017, 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, 2018 and 2017, 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.

September 17, 2019

Pratham USA

Statements of Financial Position

| | December 31, | |
|---|----------------------|----------------------|
| | <u>2018</u> | <u>2017</u> |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 2,463,087 | \$ 3,478,076 |
| Investments at fair value | 30,454 | 11,359 |
| Unconditional promises to give | 7,725,418 | 7,551,079 |
| Prepaid expenses | <u>73,317</u> | <u>121,462</u> |
| Total current assets | <u>10,292,276</u> | <u>11,161,976</u> |
| Unconditional promises to give, non-current | 3,049,962 | 1,274,775 |
| Restricted cash | 250,000 | 250,000 |
| Other assets | <u>11,903</u> | <u>12,276</u> |
| Total assets | <u>\$ 13,604,141</u> | <u>\$ 12,699,027</u> |
| Liabilities and Net Assets | | |
| Current liabilities | | |
| Accounts payable | <u>\$ 293,593</u> | <u>\$ 210,524</u> |
| Total current liabilities | <u>293,593</u> | <u>210,524</u> |
| Commitments and contingencies | | |
| Net assets | | |
| Without donor restrictions | 3,937,806 | 2,617,340 |
| With donor restrictions | <u>9,372,742</u> | <u>9,871,163</u> |
| Total net assets | <u>13,310,548</u> | <u>12,488,503</u> |
| Total liabilities and net assets | <u>\$ 13,604,141</u> | <u>\$ 12,699,027</u> |

See notes to financial statements.

Pratham USA

Statements of Activities

| | Year Ended December 31, | |
|---|-------------------------|----------------------|
| | 2018 | 2017 |
| Changes in net assets without donor restrictions | | |
| Revenues and other support | | |
| Contributions | \$ 3,789,730 | \$ 5,559,372 |
| Foundation grants | 4,021,829 | 3,869,630 |
| Special events | 7,437,886 | 6,870,311 |
| Less: direct benefit to donors | (1,095,885) | (943,143) |
| Other income | 2,555 | 30,789 |
| Total revenues and other support | <u>14,156,115</u> | <u>15,386,959</u> |
| Net assets released from restrictions | | |
| Expiration of time and program restrictions | <u>7,327,784</u> | <u>4,943,365</u> |
| Total revenue without donor restrictions | <u>21,483,899</u> | <u>20,330,324</u> |
| Expenses | | |
| Program support expenses | 17,112,895 | 16,883,286 |
| General and administrative expenses | 759,413 | 553,095 |
| Fundraising expenses | <u>2,291,125</u> | <u>1,810,599</u> |
| Total expenses | <u>20,163,433</u> | <u>19,246,980</u> |
| Increase in net assets without donor restrictions | <u>1,320,466</u> | <u>1,083,344</u> |
| Changes in net assets with donor restrictions | | |
| Contributions | 95,265 | 2,043,411 |
| Foundation grants | 6,421,557 | 3,083,000 |
| Special events | 319,095 | 101,396 |
| Other income (expense) | (6,554) | 64,279 |
| Net assets released from restrictions | <u>(7,327,784)</u> | <u>(4,943,365)</u> |
| Increase (decrease) in net assets with donor restrictions | <u>(498,421)</u> | <u>348,721</u> |
| Increase in net assets | <u>822,045</u> | <u>1,432,065</u> |
| Net assets, beginning of year | <u>12,488,503</u> | <u>11,056,438</u> |
| Net assets, end of year | <u>\$ 13,310,548</u> | <u>\$ 12,488,503</u> |

See notes to financial statements.

Pratham USA

Statements of Cash Flows

| | Year Ended December 31, | |
|--|-------------------------|---------------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 822,045 | \$ 1,432,065 |
| Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities: | | |
| Donated securities | (154,662) | (173,467) |
| Loss (gain) on sale of donated securities | 1,908 | (1,986) |
| Bad debt | 11,700 | 3,125 |
| Changes in operating assets and liabilities | | |
| Proceeds from sale of donated securities | 133,659 | 258,641 |
| Unconditional promises to give | (1,961,226) | 1,074,704 |
| Prepaid expenses | 48,145 | (85,582) |
| Other assets | 373 | (10,184) |
| Accounts payable | 83,069 | 86,405 |
| Net cash provided by (used in) operating activities | <u>(1,014,989)</u> | <u>2,583,721</u> |
| Net change in cash, cash equivalents, and restricted cash | (1,014,989) | 2,583,721 |
| Cash, cash equivalents and restricted cash - beginning of year | <u>3,728,076</u> | <u>1,144,355</u> |
| Cash, cash equivalents and restricted cash - end of year | \$ <u>2,713,087</u> | \$ <u>3,728,076</u> |
| Cash and cash equivalents | \$ 2,463,087 | \$ 3,478,076 |
| Restricted cash | <u>250,000</u> | <u>250,000</u> |
| Total cash, cash equivalents and restricted cash | <u>\$ 2,713,087</u> | <u>\$ 3,728,076</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, 2018 | | | | |
| Expense category: | | | | |
| Program | \$ 17,065,395 | \$ - | \$ - | \$ 17,065,395 |
| Salary | 47,500 | 587,864 | 1,235,111 | 1,870,475 |
| Chapter and event expenses | - | - | 1,572,011 | 1,572,011 |
| Office | - | 140,707 | 30,378 | 171,085 |
| Publicity | - | 342 | 108,737 | 109,079 |
| Bad debt | - | - | 11,700 | 11,700 |
| Other | - | 30,500 | - | 30,500 |
| Travel expenses | - | - | 217,507 | 217,507 |
| Credit and donation processing fees | - | - | 124,637 | 124,637 |
| Workshops and meetings | - | - | 86,929 | 86,929 |
| | <u>17,112,895</u> | <u>759,413</u> | <u>3,387,010</u> | <u>21,259,318</u> |
| Less: direct benefit to donors | <u>-</u> | <u>-</u> | <u>(1,095,885)</u> | <u>(1,095,885)</u> |
| Total expenses | <u>\$ 17,112,895</u> | <u>\$ 759,413</u> | <u>\$ 2,291,125</u> | <u>\$ 20,163,433</u> |
| Year ended December 31, 2017 | | | | |
| Expense category: | | | | |
| Program | \$ 16,840,873 | \$ - | \$ - | \$ 16,840,873 |
| Salary | 42,413 | 403,179 | 942,801 | 1,388,393 |
| Chapter and event expenses | - | - | 1,398,788 | 1,398,788 |
| Office | - | 149,849 | 29,348 | 179,197 |
| Publicity | - | 67 | 31,715 | 31,782 |
| Bad debt | - | - | 3,125 | 3,125 |
| Other | - | - | 13,725 | 13,725 |
| Travel expenses | - | - | 137,220 | 137,220 |
| Credit and donation processing fees | - | - | 139,924 | 139,924 |
| Workshops and meetings | - | - | 57,096 | 57,096 |
| | <u>16,883,286</u> | <u>553,095</u> | <u>2,753,742</u> | <u>20,190,123</u> |
| Less: direct benefit to donors | <u>-</u> | <u>-</u> | <u>(943,143)</u> | <u>(943,143)</u> |
| Total expenses | <u>\$ 16,883,286</u> | <u>\$ 553,095</u> | <u>\$ 1,810,599</u> | <u>\$ 19,246,980</u> |

See notes to financial statements.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

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 about 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 2018 one donor accounted for approximately 18% of the Organization's revenue and approximately 30% of unconditional promises to give at December 31, 2018. During 2017, two donors accounted for approximately 33% of the Organization's revenues and approximately 18% of unconditional promises to give at December 31, 2017.

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"). Accordingly, these financial statements present the financial position, results of operations, and cash flows of the Organization.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 958-205, net assets, revenues, expenses, gains and losses are classified on the existence or absence of donor-imposed restrictions, as follows:

- Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by action of the Board of Directors.
- Net assets with donor restrictions - net assets subject to donor-imposed stipulations that specify a use for a contributed asset. When a purpose restriction or a time restriction ends, net assets with donor restrictions are released to net assets without donor restrictions and reported in the Statement of Activities.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

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 2018 and 2017 are largely due to significant donations received before year-end.

Restricted cash

The Organization maintains a restricted cash balance 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. No scholarships have been awarded as of December 31, 2018.

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 2021 and are reflected at the present value using a discount rate of approximately 2.5%. The unamortized discount at December 31, 2018 is \$162,866. There was no unamortized discount at December 31, 2017. 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, 2018 and 2017, therefore no allowance was necessary.

Functional expenses

The costs of providing various programs and other activities during 2018 and 2017 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.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)Donated services and materials

Individuals contribute services to assist in the furtherance of the Organization's mission and objectives. Fair value of donated services is 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, 2018 and 2017, contributed legal and other services were recorded in the statements of activities in the general and administrative functional category of \$7,783 and \$22,825, respectively.

Advertising costs

Advertising costs are expensed as incurred. The Organization expensed approximately \$115,000 and \$42,000 in marketing and promotion costs for the years ended December 31, 2018 and 2017, 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, 2018.

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.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

Note 1 - Summary of Significant Accounting Policies (Continued)Recently adopted accounting standard

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 has implemented the ASU as of December 31, 2018, and determined no reclassifications or restatements were necessary.

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 is not 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.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

Note 2 - Fair Value Measurements (Continued)

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

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Cash, cash equivalents, and restricted cash | | |
| Money market | \$ 5,777 | \$ 1,102 |
| Cash in bank | 2,321,930 | 3,304,638 |
| Undeposited funds | <u>385,380</u> | <u>422,336</u> |
| Total cash, cash equivalents and restricted cash | <u>\$ 2,713,087</u> | <u>\$ 3,728,076</u> |
| Investments | | |
| Equity securities | | |
| Technology | \$ 23,661 | \$ 4,905 |
| Mutual funds | <u>6,793</u> | <u>6,454</u> |
| Total investments | <u>\$ 30,454</u> | <u>\$ 11,359</u> |

Note 3 - Net Assets With Donor Restrictions

Net assets with donor restrictions at December 31, consist of the following:

| | <u>2018</u> | <u>2017</u> |
|--|---------------------|---------------------|
| Purpose restrictions: | | |
| Vocational education programs | \$ 1,523,733 | \$ 3,247,500 |
| Read India | 4,590,380 | 1,519,565 |
| Annual status of education report (ASER) | 7,352 | 550,000 |
| Open school education programs | 238,327 | 639,844 |
| Technology | 2,215,557 | 3,070,500 |
| Hamara Gaon | 40,000 | - |
| Measurement, monitoring and evaluation | 150,000 | 450,000 |
| Scholarship fund | 450,000 | 250,000 |
| Other programs | <u>57,494</u> | <u>53,241</u> |
| | <u>9,272,843</u> | <u>9,780,650</u> |
| Time restricted: | | |
| Future year operations | <u>99,899</u> | <u>90,513</u> |
| Total net assets with donor restrictions | <u>\$ 9,372,742</u> | <u>\$ 9,871,163</u> |

During the years ended December 31, 2018 and 2017, net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes in the amounts of \$7,327,784 and \$4,943,365, respectively.

Pratham USA

Notes to Financial Statements

December 31, 2018 and 2017

Note 4 - Liquidity and Availability of Resources

The Organization's financial assets available for general expenditure within one year at December 31, 2018 is as follows:

| | |
|--|-------------------------|
| Cash and cash equivalents | \$ 2,463,087 |
| Investments at fair value | 30,454 |
| Unconditional promises to give | 10,775,380 |
| Restricted cash | <u>250,000</u> |
| Total financial assets | 13,518,921 |
| Donor-imposed restrictions | <u>(9,372,742)</u> |
| Financial assets available to meet general expenditures within one year | \$ <u>4,146,179</u> |

The organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. In addition, the organization receives support without donor restrictions, which was approximately 69% of all current year support during the year ended December 31, 2018. The organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The organization has a liquidity policy to maintain current financial assets less current liabilities at a minimum of 60 days operating expenses.

Note 5 - Subsequent Events

Management has evaluated subsequent events as of September 17, 2019, which was the date the financial statements were available for issuance, and has determined that there are no subsequent events to be reported.