

Pratham USA

Financial Statements

December 31, 2016 and 2015

Pratham USA
December 31, 2016 and 2015

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.....	6-10

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, 2016 and 2015, 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, 2016 and 2015, 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 2, 2017

Pratham USA

Statements of Financial Position

	December 31,	
	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 1,144,355	\$ 3,425,201
Investments	94,547	14,334
Unconditional promises to give	6,013,037	2,679,046
Prepaid expenses	35,880	20,570
Total current assets	<u>7,287,819</u>	<u>6,139,151</u>
Unconditional promises to give, non-current	3,890,646	1,325,000
Other assets	<u>2,092</u>	<u>2,943</u>
Total assets	<u>\$ 11,180,557</u>	<u>\$ 7,467,094</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	<u>\$ 124,119</u>	<u>\$ 128,645</u>
Total current liabilities	<u>124,119</u>	<u>128,645</u>
Net assets		
Unrestricted	1,533,996	1,808,614
Temporarily restricted	<u>9,522,442</u>	<u>5,529,835</u>
Total net assets	<u>11,056,438</u>	<u>7,338,449</u>
Total liabilities and net assets	<u>\$ 11,180,557</u>	<u>\$ 7,467,094</u>

See notes to financial statements.

Pratham USA

Statements of Activities

	Year Ended December 31,	
	2016	2015
Changes in unrestricted net assets		
Revenues and other supports		
Contributions	\$ 2,739,704	\$ 2,970,547
Foundation grants	6,030,466	1,924,000
Special events	4,990,603	6,533,406
Less: direct benefit to donors	(831,577)	(864,681)
Other income	124	17,412
Total revenues and other supports	<u>12,929,320</u>	<u>10,580,684</u>
Net assets released from restriction		
Expiration of time and program restrictions	<u>3,594,835</u>	<u>6,303,370</u>
Total unrestricted revenues and other supports	<u>16,524,155</u>	<u>16,884,054</u>
Expenditures		
Program support expenses	15,006,248	16,413,629
General and administrative expenses	483,564	451,845
Fundraising expenses	<u>1,308,961</u>	<u>1,227,143</u>
Total expenditures	<u>16,798,773</u>	<u>18,092,617</u>
Decrease in unrestricted net assets	<u>(274,618)</u>	<u>(1,208,563)</u>
Changes in temporarily restricted net assets		
Contributions	520,455	672,301
Foundation grants	7,005,369	2,295,000
Special events	61,618	287,346
Net assets released from restriction	<u>(3,594,835)</u>	<u>(6,303,370)</u>
Increase (decrease) in temporarily restricted net assets	<u>3,992,607</u>	<u>(3,048,723)</u>
Increase (decrease) in net assets	<u>3,717,989</u>	<u>(4,257,286)</u>
Net assets, beginning of year	<u>7,338,449</u>	<u>11,595,735</u>
Net assets, end of year	<u>\$ 11,056,438</u>	<u>\$ 7,338,449</u>

See notes to financial statements.

Pratham USA

Statements of Cash Flows

	Year Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 3,717,989	\$ (4,257,286)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Donated securities	(179,281)	(628,100)
Gain on sale of donated securities	(103)	(16,591)
Bad debt	8,000	27,713
Changes in operating assets and liabilities		
Proceeds from sale of donated securities	99,171	644,933
Unconditional promises to give	(5,907,637)	392,922
Prepaid expenses	(15,310)	(2,294)
Other assets	851	2,021
Accounts payable	(4,526)	91,840
Net cash used in operating activities	<u>(2,280,846)</u>	<u>(3,744,842)</u>
Net decrease in cash and cash equivalents	(2,280,846)	(3,744,842)
Cash and cash equivalents - beginning of year	<u>3,425,201</u>	<u>7,170,043</u>
Cash and cash equivalents - end of year	<u>\$ 1,144,355</u>	<u>\$ 3,425,201</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, 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>
Year ended December 31, 2015				
Expense category:				
Program	\$ 16,376,129	\$ -	\$ -	\$ 16,376,129
Salary	37,500	326,988	581,216	945,704
Office	-	124,857	10,530	135,387
Publicity	-	-	34,450	34,450
Bad debt	-	-	27,713	27,713
Other	-	-	38,193	38,193
Fundraising	-	-	535,041	535,041
	<u>\$ 16,413,629</u>	<u>\$ 451,845</u>	<u>\$ 1,227,143</u>	<u>\$ 18,092,617</u>

See notes to financial statements.

Pratham USA

Notes to Financial Statements

December 31, 2016 and 2015

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 2016, two donors accounted for 30% of revenues. During 2015, one donor accounted for 20% of revenues.

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 will account 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.

Pratham USA

Notes to Financial Statements

December 31, 2016 and 2015

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 2016 and 2015 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 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, 2016 and 2015, therefore no allowance was necessary.

Functional expenses

The costs of providing various programs and other activities during 2016 and 2015 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, 2016 and 2015, \$15,796 and \$13,150 of contributed legal services and administrative expenses were recorded in the statements of activities.

Pratham USA

Notes to Financial Statements

December 31, 2016 and 2015

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

Advertising costs are expensed as incurred. The Organization expensed approximately \$57,000 and \$43,000 in marketing and promotion costs for the years ended December 31, 2016 and 2015, respectively.

Financial instruments, credit risk and concentration of credit risk

Financial instruments which 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, 2016.

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 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.

Pratham USA

Notes to Financial Statements

December 31, 2016 and 2015

Note 2 - Fair Value Measurements (continued)

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 and cash equivalents and its investments classified as Level 1 are as follows at December 31:

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents		
Money market	\$ -	\$ 946
Cash in bank	674,580	3,024,438
Undeposited funds	<u>469,775</u>	<u>399,817</u>
Total cash and cash equivalents	<u>\$ 1,144,355</u>	<u>\$ 3,425,201</u>
Investments		
Equity securities		
Technology	\$ 90,266	\$ 9,958
Others	<u>4,281</u>	<u>4,376</u>
Total investments	<u>\$ 94,547</u>	<u>\$ 14,334</u>

Note 3 - Temporarily Restricted Net Assets

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

	<u>2016</u>	<u>2015</u>
Program restrictions:		
Vocational education programs	\$ 1,140,000	\$ 2,652,000
Read India	3,663,677	2,535,397
Annual status of education report (ASER)	1,153,169	1,156
Open school education programs	1,008,378	285,500
Technology	2,502,500	-
Other programs	<u>54,718</u>	<u>55,782</u>
Total temporarily restricted net assets	<u>\$ 9,522,442</u>	<u>\$ 5,529,835</u>

Pratham USA

Notes to Financial Statements

December 31, 2016 and 2015

Note 4 - Subsequent Events

Management has evaluated subsequent events as of August 2, 2017 which was the date the financial statements were available for issuance, and has determined that there are no subsequent events to be reported.