

FINANCIAL STATEMENTS

TOSTAN, INC.

FOR THE YEAR ENDED DECEMBER 31, 2009

TOSTAN, INC.

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tostan, Inc.
Washington, D.C.

We have audited the accompanying statement of financial position of Tostan, Inc. (Tostan) as of December 31, 2009, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Tostan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tostan as of December 31, 2009, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 2010 on our consideration of Tostan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

July 9, 2010

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TOSTAN, INC.

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,131,145
Investments (Note 2)	29,099
Grants receivable	1,164,640
Employee receivables	33,068
Other receivables	116,353
Prepaid expenses and other assets	<u>6,679</u>
Total current assets	<u>3,480,984</u>

PROPERTY AND EQUIPMENT

Land	303,693
Buildings and improvements	383,003
Furniture and office equipment	408,267
Computer equipment	252,069
Vehicles	<u>959,593</u>
	2,306,625
Less: Accumulated depreciation and amortization	<u>(919,679)</u>
Net property and equipment	<u>1,386,946</u>
TOTAL ASSETS	<u>\$ 4,867,930</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ <u>242,180</u>
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NET ASSETS

Unrestricted	1,664,225
Temporarily restricted	<u>3,083,063</u>
Subtotal net assets	4,747,288
Exchange rate adjustment	<u>(121,538)</u>
Total net assets	<u>4,625,750</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,867,930</u>

TOSTAN, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
REVENUE			
Grants and contributions	\$ 5,910,534	\$ 1,176,347	\$ 7,086,881
U.S. Government grants (Note 4)	-	822,467	822,467
Interest and investment income (Note 2)	9,472	-	9,472
Net Training Center income	32,470	-	32,470
Other	86,097	-	86,097
Net assets released from donor restrictions	<u>503,069</u>	<u>(503,069)</u>	<u>-</u>
Total revenue	<u>6,541,642</u>	<u>1,495,745</u>	<u>8,037,387</u>
EXPENSES			
Program Services	<u>6,091,848</u>	<u>-</u>	<u>6,091,848</u>
Supporting services:			
General and Administrative	778,356	-	778,356
Fundraising	<u>257,565</u>	<u>-</u>	<u>257,565</u>
Total supporting services	<u>1,035,921</u>	<u>-</u>	<u>1,035,921</u>
Total expenses	<u>7,127,769</u>	<u>-</u>	<u>7,127,769</u>
Change in net assets before other item	<u>(586,127)</u>	<u>1,495,745</u>	<u>909,618</u>
OTHER ITEMS			
Transfer of Tostan-France net assets	-	(66,859)	(66,859)
Exchange rate loss	<u>(85,842)</u>	<u>-</u>	<u>(85,842)</u>
Total other items	<u>(85,842)</u>	<u>(66,859)</u>	<u>(152,701)</u>
Change in net assets	(671,969)	1,428,886	756,917
Net assets at beginning of year	<u>2,336,194</u>	<u>1,654,177</u>	<u>3,990,371</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,664,225</u>	<u>\$ 3,083,063</u>	<u>\$ 4,747,288</u>

See accompanying notes to financial statements.

TOSTAN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009**

	Program Services	Supporting Services		Total Expenses
		Management and General	Fundraising	
Salaries and related benefits (Note 3)	\$ 1,501,595	\$ 254,445	\$ 89,355	\$ 1,845,395
Contract services	1,082,954	110,349	47,762	1,241,065
Grants and other assistance	190,084	87,313	70,476	347,873
Supplies	786,820	39,594	10,264	836,678
Facilities and equipment	655,352	87,957	18,928	762,237
Travel and meetings	953,925	149,548	13,834	1,117,307
Other	921,118	49,150	6,946	977,214
TOTAL	\$ 6,091,848	\$ 778,356	\$ 257,565	\$ 7,127,769

TOSTAN, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 756,917
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	224,291
Unrealized gain on investments	(4,045)
Realized loss on sales of investments	125
(Increase) decrease in:	
Grants receivable	(775,675)
Employee receivables	5,592
Other receivables	(32,906)
Prepaid expenses and other assets	5,779
Increase (decrease) in:	
Accounts payable and accrued liabilities	(42,334)
Refundable advances	<u>(285,858)</u>
Net cash used by operating activities	<u>(148,114)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(444,730)
Purchases of investments	(280)
Proceeds from sales of investments	<u>561</u>
Net cash used by investing activities	<u>(444,449)</u>
Net decrease in cash and cash equivalents	(592,563)
Cash and cash equivalents at beginning of year	<u>2,723,708</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>2,131,145</u>

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Tostan, Inc. (Tostan) is a U.S. non-profit organization, incorporated in Delaware and based in Senegal, West Africa. Tostan's mission is to empower African communities to bring about sustainable development and positive social transformation based on respect for human rights.

Recently issued accounting standards -

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles*, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, Tostan has updated references to GAAP in its financial statements issued for the year ended December 31, 2009. The adoption of FASB ASC 105 did not impact Tostan's financial position or results of operations.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

Tostan considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, Tostan maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Receivables -

All receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment in excess of \$500 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years.

Income taxes -

Tostan is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Tostan is not a private foundation.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2009, Tostan has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Tostan and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Tostan and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Tostan receives funding under grants and contracts from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Funding received in advance of incurring the related expenses is recorded as a refundable advance.

Use of estimates -

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

Tostan invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market 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 that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

Tostan adopted the provisions of FASB ASC 820, *Fair Value Measurements and Disclosures*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Tostan accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, Tostan has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market Tostan has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the investments.

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009**

2. INVESTMENTS

Investments consisted of the following at December 31, 2009 and are carried at market value, all of which are classified in accordance with FASB ASC 820 as Level 1:

	<u>Cost</u>	<u>Market Value</u>
Equities	\$ <u>28,764</u>	\$ <u>29,099</u>

Included in interest and investment income are the following:

Interest and dividends	\$ 5,552
Unrealized gain on investments	4,045
Realized loss on sales of investments	<u>(125)</u>
TOTAL INTEREST AND INVESTMENT INCOME	\$ <u>9,472</u>

3. RETIREMENT PLAN

Tostan provides retirement benefits to qualifying employees under a 401(k) plan. Tostan matches 100% of contributions, up to 4% of gross wages. Contributions to the plan during the year ended December 31, 2009 were \$14,712.

4. CONTINGENCY

Tostan receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2009. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

5. SUBSEQUENT EVENTS

In preparing these financial statements, Tostan has evaluated events and transactions for potential recognition or disclosure through July 9, 2010, the date the financial statements were issued.