

FINANCIAL STATEMENTS

TOSTAN, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2010**

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, 2011, 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. The prior year summarized comparative information has been derived from Tostan's 2010 financial statements and, in our report dated July 28, 2011, we expressed an unqualified opinion on those statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Tostan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2011, 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 August 22, 2012, 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.

August 22, 2012

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TOSTAN, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

ASSETS

	<u>2011</u>	<u>2010</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,222,962	\$ 4,506,548
Investments (Note 2)	34,801	34,061
Grants receivable	2,571,047	563,115
Employee receivables	49,151	38,275
Contributions and other receivables	81,820	153,667
Prepaid expenses and other assets	<u>24,548</u>	<u>17,612</u>
Total current assets	<u>6,984,329</u>	<u>5,313,278</u>
PROPERTY AND EQUIPMENT		
Land	298,573	303,693
Buildings and improvements	451,750	362,523
Furniture and office equipment	368,688	320,792
Computer equipment	81,224	213,897
Vehicles	<u>779,505</u>	<u>821,075</u>
	1,979,740	2,021,980
Less: Accumulated depreciation and amortization	<u>(1,077,336)</u>	<u>(1,004,940)</u>
Net property and equipment	<u>902,404</u>	<u>1,017,040</u>
TOTAL ASSETS	<u>\$ 7,886,733</u>	<u>\$ 6,330,318</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ <u>290,437</u>	\$ <u>137,517</u>
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NET ASSETS

Unrestricted	2,259,622	1,854,483
Temporarily restricted	<u>5,336,674</u>	<u>4,338,318</u>

Total net assets	<u>7,596,296</u>	<u>6,192,801</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,886,733</u>	<u>\$ 6,330,318</u>
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TOSTAN, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions (Note 4)	\$ 1,139,234	\$ 8,825,400	\$ 9,964,634	\$ 8,975,024
Interest and investment income (Note 2)	5,857	-	5,857	6,612
In-kind contributions	60,653	-	60,653	317,247
Net Training Center loss	(98,532)	-	(98,532)	(19,861)
Other	10,426	-	10,426	114,829
Net assets released from donor restrictions	<u>7,827,044</u>	<u>(7,827,044)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>8,944,682</u>	<u>998,356</u>	<u>9,943,038</u>	<u>9,393,851</u>
EXPENSES				
Program Services	<u>7,600,500</u>	<u>-</u>	<u>7,600,500</u>	<u>6,229,585</u>
Supporting Services:				
General and Administrative	1,246,094	-	1,246,094	967,652
Fundraising	<u>140,860</u>	<u>-</u>	<u>140,860</u>	<u>369,975</u>
Total supporting services	<u>1,386,954</u>	<u>-</u>	<u>1,386,954</u>	<u>1,337,627</u>
Total expenses	<u>8,987,454</u>	<u>-</u>	<u>8,987,454</u>	<u>7,567,212</u>
Change in net assets before other item	(42,772)	998,356	955,584	1,826,639
OTHER ITEM				
Exchange rate gain (loss)	<u>447,911</u>	<u>-</u>	<u>447,911</u>	<u>(259,588)</u>
Change in net assets	405,139	998,356	1,403,495	1,567,051
Net assets at beginning of year	<u>1,854,483</u>	<u>4,338,318</u>	<u>6,192,801</u>	<u>4,625,750</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,259,622</u>	<u>\$ 5,336,674</u>	<u>\$ 7,596,296</u>	<u>\$ 6,192,801</u>

See accompanying notes to financial statements.

TOSTAN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	2011			2010	
	Program Services	Supporting Services		Total Expenses	Total Expenses
Management and General		Fundraising			
Salaries and related benefits (Note 3)	\$ 2,437,893	\$ 308,212	\$ 39,560	\$ 2,785,665	\$ 1,932,326
Contract services	790,624	218,475	30,667	1,039,766	864,688
Grants and other assistance	403,520	64,212	6,020	473,752	304,764
Supplies	525,230	117,937	20,504	663,671	726,868
Facilities and equipment	933,153	237,970	11,462	1,182,585	1,009,792
Travel and meetings	2,229,966	151,577	20,464	2,402,007	1,984,567
Other	280,114	147,711	12,183	440,008	744,207
TOTAL	\$ 7,600,500	\$ 1,246,094	\$ 140,860	\$ 8,987,454	\$ 7,567,212

TOSTAN, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010**

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,403,495	\$ 1,567,051
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	135,389	369,906
Unrealized gain on investments	(740)	(3,923)
Donated investments	-	(1,039)
(Increase) decrease in:		
Grants receivable	(2,007,932)	601,525
Employee receivables	(10,876)	(5,207)
Contributions and other receivables	71,847	(37,314)
Prepaid expenses and other assets	(6,936)	(10,933)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>152,920</u>	<u>(104,663)</u>
Net cash (used) provided by operating activities	<u>(262,833)</u>	<u>2,375,403</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(25,874)	-
Proceeds from sale of land	<u>5,121</u>	<u>-</u>
Net cash used by investing activities	<u>(20,753)</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(283,586)	2,375,403
Cash and cash equivalents at beginning of year	<u>4,506,548</u>	<u>2,131,145</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,222,962</u>	<u>\$ 4,506,548</u>

See accompanying notes to financial statements.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Tostan, Inc. (Tostan) is a U.S. non-governmental 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. Working primarily in remote regions, Tostan provides holistic, participatory education to adults and adolescents who have not had access to formal schooling.

For over two decades, Tostan has demonstrated that providing such an education transforms learners and their communities, leading to meaningful and sustainable social change. Tostan's unique 30-month education program, known as the Community Empowerment Program (CEP), includes modules on human rights, hygiene and health, literacy, and project management. It also employs community-led outreach strategies that engage program participants in their own and neighboring villages. Through this approach, Tostan has transformed the lives of thousands of people in Africa.

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*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Tostan's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

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. Additionally, Tostan maintained \$1,771,315 of cash on hand and in banks in several countries within Africa; all such funds are not insured. 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.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

Property and equipment -

Furniture, equipment and vehicle purchases in excess of \$5,000 (using undesignated funds) are capitalized and stated at cost. Furniture, equipment and vehicles are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to ten years. Land that is purchased with undesignated funds is capitalized at original acquisition value and is not amortized. Buildings (and improvements that are fixed and enhance the value of the building) are capitalized and amortized over 20 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.

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, 2011, 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.

IRS Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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. As of December 31, 2011, temporarily restricted net assets totaled \$5,336,674, and included awards (grants receivable and cash) received from donors to be spent specifically on 2012 program activities. During the year ended December 31, 2011, temporarily restricted net assets of \$7,827,044 were released from restrictions as Tostan satisfied the restricted purposes imposed by donors.

Grants and contributions -

Tostan receives its funding under awards from the U.S. and foreign governments, international organizations and other grantors for direct and indirect program costs.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

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

Grants and contributions (continued) -

This funding is subject to restrictions set forth by those donors, which must be satisfied through incurring qualifying expenses for particular programs. Accordingly such awards are recorded as restricted support at the time funds are obligated, and are released from restrictions upon satisfaction of the program restrictions (through incurring program expenditures), in the accompanying financial statements.

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.

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.

Functional currency -

Tostan maintains offices in several countries within Africa. All assets and liabilities held in overseas offices are reported in the accompanying Statement of Financial Position and have been translated into U.S. Dollars using the spot exchange rate in effect as of fiscal year-end. All revenues and expenses transacted abroad are reported in the accompanying Statement of Activities and Change in Net Assets and have been translated into U.S. Dollars using the average annual exchange rate. As the year-end assets and liabilities (held abroad) have been revalued at the current spot rates, exchange rate variances have been reflected as a currency gain or loss in the accompanying Statement of Activities and Change in Net Assets.

Fair value measurements -

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.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

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

Fair value measurements (continued) -

Investments recorded in the Statements 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 for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2011:

Equities - Valued at the closing price reported on the active market in which the individual securities are traded.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. **INVESTMENTS**

Investments consisted of the following at December 31, 2011 and are carried at readily determinable fair value, all of which are classified in accordance with FASB ASC 820 as Level 1:

	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ <u>29,803</u>	\$ <u>34,801</u>

Included in interest and investment income are the following at December 31, 2011:

Interest and dividends	\$ 5,117
Unrealized gain on investments	<u>740</u>
TOTAL INTEREST AND INVESTMENT INCOME	\$ <u>5,857</u>

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

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, 2011 totaled \$8,410.

4. CONTINGENCIES

Tostan receives support from various agencies of the United States Government or through other pass-through entities; such awards 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 2011. 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.

Tostan delivers sustainable development and creates positive social change in communities within several African countries. Accordingly, Tostan maintains a significant portion of its assets within these countries. The future results of its programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate. As of December 31, 2011 and 2010, Tostan held cash, property and equipment and other assets in overseas offices totaling approximately \$4,800,000 and \$4,400,000, respectively, which represents 61% and 70% of Tostan's total assets as of December 31, 2011 and 2010, respectively.

5. SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the Statement of Financial Position date, but before the financial statements are issued. Tostan recognized in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at December 31, 2011, including the estimates inherent in the process of preparing the financial statements. Tostan's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at December 31, 2011, but arose after December 31, 2011, and before financial statements are available to be issued.

In preparing these financial statements, Tostan has evaluated events and transactions for potential recognition or disclosure through August 22, 2012, the date the financial statements were issued.