

FINANCIAL STATEMENTS

TOSTAN, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2017**

TOSTAN, INC.

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Tostan, Inc. (Tostan), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

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. Those standards require that we plan and perform the audit 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 auditor's 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 Tostan as of December 31, 2018, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Report on Summarized Comparative Information

We have previously audited Tostan's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 12, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

July 15, 2019

TOSTAN, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,635,949	\$ 2,835,015
Investments	-	4,374
Grants receivable, net of allowance for doubtful amounts of \$50,000	3,662,581	4,624,864
Employee receivables	29,366	25,444
Other receivables and advances	208,672	8,484
Prepaid expenses and other assets	<u>20,372</u>	<u>17,612</u>
Total current assets	<u>7,556,940</u>	<u>7,515,793</u>
PROPERTY AND EQUIPMENT		
Land	271,433	271,433
Buildings and improvements	451,750	451,750
Furniture and equipment	128,174	110,308
Computer equipment and software	289,674	344,792
Vehicles	<u>310,591</u>	<u>298,598</u>
	1,451,622	1,476,881
Less: Accumulated depreciation and amortization	<u>(945,851)</u>	<u>(942,711)</u>
Net property and equipment	<u>505,771</u>	<u>534,170</u>
NONCURRENT ASSETS		
Grants receivable, net of current portion and present value discount of \$27,754	<u>1,442,133</u>	<u>2,602,819</u>
TOTAL ASSETS	<u>\$ 9,504,844</u>	<u>\$ 10,652,782</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>273,452</u>	\$ <u>109,164</u>
NET ASSETS		
Without donor restrictions	2,158,210	1,464,759
With donor restrictions	<u>7,073,182</u>	<u>9,078,859</u>
Total net assets	<u>9,231,392</u>	<u>10,543,618</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,504,844</u>	<u>\$ 10,652,782</u>

TOSTAN, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 3,155,854	\$ 2,787,642	\$ 5,943,496	\$ 7,742,712
In-kind contributions	-	-	-	9,119
Interest and investment loss	(1,866)	-	(1,866)	(2,721)
Net Training Center gain (loss)	64,830	-	64,830	(74,379)
Other	-	-	-	1,124
Net assets released from donor restrictions	<u>4,857,215</u>	<u>(4,857,215)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>8,076,033</u>	<u>(2,069,573)</u>	<u>6,006,460</u>	<u>7,675,855</u>
EXPENSES				
Program Services	<u>6,066,986</u>	<u>-</u>	<u>6,066,986</u>	<u>5,319,631</u>
Supporting Services:				
General and Administrative	1,125,356	-	1,125,356	1,024,643
Fundraising	<u>408,503</u>	<u>-</u>	<u>408,503</u>	<u>296,276</u>
Total supporting services	<u>1,533,859</u>	<u>-</u>	<u>1,533,859</u>	<u>1,320,919</u>
Total expenses	<u>7,600,845</u>	<u>-</u>	<u>7,600,845</u>	<u>6,640,550</u>
Change in net assets before other items	<u>475,188</u>	<u>(2,069,573)</u>	<u>(1,594,385)</u>	<u>1,035,305</u>
OTHER ITEMS				
Foreign exchange gain	<u>218,263</u>	<u>63,896</u>	<u>282,159</u>	<u>165,610</u>
Change in net assets	693,451	(2,005,677)	(1,312,226)	1,200,915
Net assets at beginning of year	<u>1,464,759</u>	<u>9,078,859</u>	<u>10,543,618</u>	<u>9,342,703</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,158,210</u>	<u>\$ 7,073,182</u>	<u>\$ 9,231,392</u>	<u>\$ 10,543,618</u>

TOSTAN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018			2017	
	Program Services	Supporting Services		Total Expenses	Total Expenses
		General and Administrative	Fundraising		
Salaries and related benefits	\$ 2,853,999	\$ 641,750	\$ 236,368	\$ 3,732,117	\$ 3,217,856
Contract services	482,145	190,828	114,699	787,672	694,382
Grants and other assistance	251,743	-	-	251,743	220,542
Supplies	210,222	13,791	22,422	246,435	239,442
Facilities and equipment	497,281	85,645	19,336	602,262	595,531
Travel and meetings	1,771,596	193,342	15,678	1,980,616	1,672,797
TOTAL	\$ 6,066,986	\$ 1,125,356	\$ 408,503	\$ 7,600,845	\$ 6,640,550

TOSTAN, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,312,226)	\$ 1,200,915
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	39,282	111,420
Unrealized loss on investments	-	76
Realized loss on sales of investments	3,319	2,854
Change in discount on noncurrent grants receivable	(83,133)	21,629
Decrease (increase) in:		
Grants receivable	2,206,102	(816,493)
Employee receivables	(3,922)	3,343
Other receivables and advances	(200,188)	90,882
Prepaid expenses and other assets	(2,760)	28,182
Increase in:		
Accounts payable and accrued liabilities	<u>164,288</u>	<u>7,267</u>
Net cash provided by operating activities	<u>810,762</u>	<u>650,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(10,883)	-
Proceeds from sales/redemption of investments	<u>1,055</u>	<u>38,847</u>
Net cash (used) provided by investing activities	<u>(9,828)</u>	<u>38,847</u>
Net increase in cash and cash equivalents	800,934	688,922
Cash and cash equivalents at beginning of year	<u>2,835,015</u>	<u>2,146,093</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,635,949</u>	<u>\$ 2,835,015</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Investments Received in Satisfaction of Grants Receivable	<u>\$ 398,350</u>	<u>\$ 585,566</u>

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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 the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended December 31, 2018 and applied retrospectively.

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, 2017, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, Tostan maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Additionally, Tostan maintained \$1,643,993 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.

Receivables -

All receivables approximate fair value. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

Property and equipment -

Furniture, equipment and vehicle purchases in excess of \$5,000 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.

Donations of computer equipment and software with a unit value of \$5,000 or more are recorded as contributions "with donor restrictions" and as capital assets in the year the contribution is received; those net assets are subsequently released from restrictions at the time those assets are placed in service. Donations of computer equipment and software with a unit value of less than \$5,000 are recorded as unrestricted contributions and equipment expense (not restricted revenue and are not capitalized).

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as net assets "without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions. During 2018, Tostan created a reserve fund that allocates 20% of all unrestricted contributions (pursuant to the "Molly Melching Fund" gift appeal) into the fund, to be used in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities; such funds can only be used with the express approval from the Board of Directors .
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets "with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Income taxes -

Tostan is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a school under Section 170(b)(1)(A)(ii). Accordingly, no provision for income taxes has been made in the accompanying financial statements.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Uncertain tax positions -

For the year ended December 31, 2018, Tostan has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Grants and contributions -

Tostan receives its funding under awards from governments, international organizations and other grantors for programmatic as well as for general operating purposes. The majority of Tostan's 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. Grants receivable also includes pledges received by Tostan and not collected as of the Statement of Financial Position date.

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 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.

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. Expenses directly attributed to a specific functional area of Tostan are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$1,464,759 are now classified as "net assets without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of \$9,078,859 are now classified as "net assets with donor restrictions".

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted. Tostan has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Tostan has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the statement of financial position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

Tostan plans to adopt the new ASUs at the respective required implementation dates.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. LIQUIDITY AND AVAILABILITY

Tostan regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. Tostan is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

Cash and cash equivalents	\$ 3,635,949
Grants receivable, current portion	<u>3,712,581</u>
Subtotal financial assets available within one year	7,348,530
Less: Donor restricted funds, current portion	(5,631,049)
Less: Board-designated funds	<u>(285,044)</u>
FINANCIAL ASSETS AVAILABLE TO MEET GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,432,437</u>

Tostan is substantially supported by restricted contributions. As a donor's restriction requires resources to be used in a particular manner or in a future period, Tostan must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Tostan's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Tostan's Board of Directors has designated a portion of its operating surplus to its liquidity reserve, and as of December 31, 2018 the aggregate amount in the reserve totaled \$285,044. The reserve was established in order to ensure Tostan maintained liquidity in the event of financial distress or an immediate liquidity need resulting from events outside the typical life cycle of converting financial assets to cash or settling financial liabilities.

3. GRANTS RECEIVABLE

Tostan has received commitments of support from its donors, of which \$5,210,933 had not been collected as of December 31, 2018. Payments expected to be collected more than one year from the Statement of Financial Position date are recorded at their net present value of the estimated cash flows, using a discount rate of 3.25%.

Grants receivable are due as follows as of December 31, 2018:

Less than one year	\$ 3,712,581
One to five years	<u>1,498,352</u>
Total	5,210,933
Less: Current reserve for uncollectable receivables	(50,000)
Less: Present value discount (noncurrent receivables)	<u>(56,219)</u>
GRANTS RECEIVABLE, NET	<u>\$ 5,104,714</u>

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Program Services	\$ <u>7,073,182</u>
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The following net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Program Services	\$ <u>4,857,215</u>
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5. LEASES

Tostan rents office space under various short-term (and month-to-month) lease agreements within several African countries where it operates and administers its programs. Tostan also leases office space in Washington, D.C. under a month-to-month agreement. During the year ended December 31, 2018, rent expense (under all worldwide leases) totaled approximately \$63,000.

6. RETIREMENT PLAN

Tostan provides retirement benefits to qualifying employees under a 403(b) plan. Tostan matches 100% of contributions, up to 4% of gross wages. Contributions to the plan during the year ended December 31, 2018 totaled \$9,773.

7. CONTINGENCY

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, 2018, Tostan held cash, property and equipment and other assets in overseas offices totaling approximately \$6,125,000, representing 64% of Tostan's total assets.

8. SUBSEQUENT EVENTS

In preparing these financial statements, Tostan has evaluated events and transactions for potential recognition or disclosure through July 15, 2019, the date the financial statements were issued.