

FINANCIAL STATEMENTS

TOSTAN, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2012**

TOSTAN, INC.

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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, 2013, 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, 2013, 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 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 30, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

September 25, 2014

TOSTAN, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 4,315,105	\$ 5,158,799
Investments (Note 6)	3,917	41,285
Grants receivable, net of allowance for doubtful amounts of \$50,000	1,884,003	3,716,712
Employee receivables	38,285	37,204
Other receivables and advances	83,949	49,478
Prepaid expenses and other assets	<u>35,288</u>	<u>27,869</u>
Total current assets	<u>6,360,547</u>	<u>9,031,347</u>
PROPERTY AND EQUIPMENT		
Land	298,573	298,573
Buildings and improvements	451,750	451,750
Furniture and equipment	220,945	268,225
Vehicles	<u>274,916</u>	<u>283,441</u>
	1,246,184	1,301,989
Less: Accumulated depreciation and amortization	<u>(574,756)</u>	<u>(558,989)</u>
Net property and equipment	<u>671,428</u>	<u>743,000</u>
NONCURRENT ASSETS		
Grants receivable, net of current portion and present value discount of \$70,050 (Note 3)	<u>1,671,146</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 8,703,121</u>	<u>\$ 9,774,347</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Loan payable (Note 2)	\$ 500,000	\$ -
Accounts payable and accrued liabilities	<u>159,833</u>	<u>397,699</u>
Total liabilities	<u>659,833</u>	<u>397,699</u>
NET ASSETS		
Unrestricted	1,473,857	1,051,201
Temporarily restricted	<u>6,569,431</u>	<u>8,325,447</u>
Total net assets	<u>8,043,288</u>	<u>9,376,648</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,703,121</u>	<u>\$ 9,774,347</u>

TOSTAN, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions (Note 5)	\$ 920,236	\$ 6,749,550	\$ 7,669,786	\$ 10,381,587
Interest and investment income	6,169	-	6,169	15,076
In-kind contributions	58,026	-	58,026	-
Net Training Center loss	(187,498)	-	(187,498)	(134,444)
Other	62,799	-	62,799	41,173
Net assets released from donor restrictions	<u>8,247,430</u>	<u>(8,247,430)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>9,107,162</u>	<u>(1,497,880)</u>	<u>7,609,282</u>	<u>10,303,392</u>
EXPENSES				
Program Services	<u>7,671,783</u>	<u>-</u>	<u>7,671,783</u>	<u>6,402,521</u>
Supporting Services:				
General and Administrative	1,068,342	-	1,068,342	1,028,334
Fundraising	<u>259,909</u>	<u>-</u>	<u>259,909</u>	<u>185,243</u>
Total supporting services	<u>1,328,251</u>	<u>-</u>	<u>1,328,251</u>	<u>1,213,577</u>
Total expenses	<u>9,000,034</u>	<u>-</u>	<u>9,000,034</u>	<u>7,616,098</u>
Change in net assets before other items	<u>107,128</u>	<u>(1,497,880)</u>	<u>(1,390,752)</u>	<u>2,687,294</u>
OTHER ITEMS				
Deobligation of restricted awards	-	(210,804)	(210,804)	(524,968)
Refund of restricted funds to donors	-	(47,332)	(47,332)	(43,719)
Allowance for uncollectible receivables	-	-	-	(50,000)
Exchange rate gain (loss)	<u>315,528</u>	<u>-</u>	<u>315,528</u>	<u>(288,255)</u>
Total other items	<u>315,528</u>	<u>(258,136)</u>	<u>57,392</u>	<u>(906,942)</u>
Change in net assets	422,656	(1,756,016)	(1,333,360)	1,780,352
Net assets at beginning of year	<u>1,051,201</u>	<u>8,325,447</u>	<u>9,376,648</u>	<u>7,596,296</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,473,857</u>	<u>\$ 6,569,431</u>	<u>\$ 8,043,288</u>	<u>\$ 9,376,648</u>

TOSTAN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	2013			2012	
	Supporting Services			Total Expenses	Total Expenses
	Program Services	General and Administrative	Fundraising		
Salaries and related benefits (Note 3)	\$3,366,704	\$530,033	\$69,823	\$ 3,966,560	\$3,337,216
Contract services	689,115	282,544	69,512	1,041,171	488,865
Grants and other assistance	276,688	-	-	276,688	411,538
Supplies	93,171	30,208	40,199	163,578	593,758
Facilities and equipment	1,181,775	143,558	38,856	1,364,189	843,003
Travel and meetings	2,015,640	66,184	35,536	2,117,360	1,358,987
Other	48,690	15,815	5,983	70,488	582,731
TOTAL	\$ 7,671,783	\$ 1,068,342	\$ 259,909	\$ 9,000,034	\$7,616,098

TOSTAN, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2012**

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,333,360)	\$ 1,780,352
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	71,572	189,953
Unrealized loss (gain) on investments	10,360	(5,428)
Realized loss on sales of investments	(15,597)	-
Donated investments	(3,851)	(1,056)
Allowance for uncollectible receivables	-	50,000
(Increase) decrease in:		
Grants receivable	161,564	(1,195,665)
Employee receivables	(1,081)	11,947
Other receivables and advances	(34,471)	32,342
Prepaid expenses and other assets	(7,419)	(3,321)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>(237,868)</u>	<u>107,262</u>
Net cash (used) provided by operating activities	<u>(1,390,151)</u>	<u>966,386</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(30,549)
Purchases of investments	-	-
Proceeds from sales of investments	<u>46,457</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>46,457</u>	<u>(30,549)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds received	<u>500,000</u>	<u>-</u>
Net cash provided by financing activities	<u>500,000</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(843,694)	935,837
Cash and cash equivalents at beginning of year	<u>5,158,799</u>	<u>4,222,962</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,315,105</u>	<u>\$ 5,158,799</u>

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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, 2012, 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.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). Tostan maintained a portion of its cash balance at financial institutions in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of \$250,000.

Additionally, Tostan maintained \$2,495,215 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.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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.

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 -

For the year ended December 31, 2013, 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.

The Federal 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. During the year ended December 31, 2013, temporarily restricted net assets of \$8,247,430 were released from restrictions as Tostan, Inc. satisfied the restricted purposes imposed by donors. As of December 31, 2013, temporarily restricted net assets totaled \$6,569,431, and included awards (grants receivable and cash) received from donors to be spent specifically on 2014 program activities.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

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

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. 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.

2. LOAN PAYABLE

On December 1, 2013, Tostan received a \$500,000 unsecured, non-interest bearing loan from a private foundation (also a current donor). The loan was satisfied in full on February 28, 2014.

Investments consisted of the following at December 31, 2013:

	<u>Cost</u>	<u>Fair Value</u>
Equities	\$ <u>3,851</u>	\$ <u>3,917</u>

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

2. INVESTMENTS (Continued)

Included in interest and investment income are the following for the year ended December 31, 2013:

Interest and dividends	\$	932
Unrealized loss on investments		(10,360)
Realized gain on sales of investments		<u>15,597</u>
TOTAL INTEREST AND INVESTMENT INCOME	\$	<u>6,169</u>

3. GRANTS RECEIVABLE

As of December 31, 2013, contributors to Tostan have made written promises to give (which have yet to be collected) totaling \$3,675,199. Grants due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate of 3.25%. Grants are due as follows at December 31, 2013:

	<u>2013</u>	<u>2012</u>
Less than one year	\$ 1,934,003	\$3,766,712
One to five years	<u>1,741,196</u>	<u>-</u>
Total	3,675,199	3,766,712
Less: Current reserve for uncollectible receivables	(50,000)	(50,000)
Less: Present value discount (noncurrent receivables)	<u>(70,050)</u>	<u>-</u>
TOTAL	<u>\$ 3,555,149</u>	<u>\$3,716,712</u>

4. 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, 2013 totaled \$16,112.

5. CONTINGENCIES

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, 2013 and 2012, Tostan held cash, property and equipment and other assets in overseas offices totaling approximately \$3,400,000 and \$7,400,000, respectively, which represents 39% and 76% of Tostan's total assets as of December 31, 2013 and 2012, respectively.

6. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurement*, 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, 2013

7. FAIR VALUE MEASUREMENTS

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 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. These are investments where 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, 2013.

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

Financial assets recorded on the Statement of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category: Equities	\$ <u>3,917</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,917</u>

8. SUBSEQUENT EVENTS

In preparing these financial statements, Tostan has evaluated events and transactions for potential recognition or disclosure through September 25, 2014, the date the financial statements were issued.