

FINANCIAL STATEMENTS

TOSTAN, INC.

**FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

TOSTAN, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of December 31, 2017, with Summarized Financial Information for 2016	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2017, with Summarized Financial Information for 2016	5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2017, with Summarized Financial Information for 2016	6
EXHIBIT D - Statement of Cash Flows, for the Year Ended December 31, 2017, with Summarized Financial Information for 2016	7
NOTES TO FINANCIAL STATEMENTS	8 - 14

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 12, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Freedman

July 12, 2018

TOSTAN, INC.

**STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,835,015	\$ 2,146,093
Investments	4,374	46,151
Grants receivable, net of allowance for doubtful amounts of \$50,000	4,624,864	4,500,752
Employee receivables	25,444	28,787
Other receivables and advances	8,484	99,366
Prepaid expenses and other assets	<u>17,612</u>	<u>45,794</u>
Total current assets	<u>7,515,793</u>	<u>6,866,943</u>
PROPERTY AND EQUIPMENT		
Land	271,433	271,433
Buildings and improvements	451,750	451,750
Furniture and equipment	110,308	110,308
Computer equipment and software	344,792	344,792
Vehicles	<u>298,598</u>	<u>298,598</u>
	1,476,881	1,476,881
Less: Accumulated depreciation and amortization	<u>(942,711)</u>	<u>(831,291)</u>
Net property and equipment	<u>534,170</u>	<u>645,590</u>
NONCURRENT ASSETS		
Grants receivable, net of current portion and present value discount of \$139,352	<u>2,602,819</u>	<u>1,932,065</u>
TOTAL ASSETS	<u>\$ 10,652,782</u>	<u>\$ 9,444,598</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ <u>109,164</u>	\$ <u>101,895</u>
NET ASSETS		
Unrestricted	1,464,759	1,415,037
Temporarily restricted	<u>9,078,859</u>	<u>7,927,666</u>
Total net assets	<u>10,543,618</u>	<u>9,342,703</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,652,782</u>	<u>\$ 9,444,598</u>

TOSTAN, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
SUPPORT AND REVENUE				
Grants and contributions	\$ 2,465,378	\$ 5,277,334	\$ 7,742,712	\$ 8,171,418
In-kind contributions	9,119	-	9,119	-
Interest and investment (loss) income	(2,721)	-	(2,721)	539
Net Training Center loss	(74,379)	-	(74,379)	(35,294)
Other	1,124	-	1,124	16,357
Net assets released from donor restrictions	<u>4,291,751</u>	<u>(4,291,751)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>6,690,272</u>	<u>985,583</u>	<u>7,675,855</u>	<u>8,153,020</u>
EXPENSES				
Program Services	<u>5,319,631</u>	<u>-</u>	<u>5,319,631</u>	<u>6,961,893</u>
Supporting Services:				
General and Administrative	1,024,643	-	1,024,643	1,446,814
Fundraising	<u>296,276</u>	<u>-</u>	<u>296,276</u>	<u>410,856</u>
Total supporting services	<u>1,320,919</u>	<u>-</u>	<u>1,320,919</u>	<u>1,857,670</u>
Total expenses	<u>6,640,550</u>	<u>-</u>	<u>6,640,550</u>	<u>8,819,563</u>
Change in net assets before other items	<u>49,722</u>	<u>985,583</u>	<u>1,035,305</u>	<u>(666,543)</u>
OTHER ITEMS				
Refund of restricted funds to donors	-	-	-	(160,531)
Exchange rate income (loss)	<u>-</u>	<u>165,610</u>	<u>165,610</u>	<u>(363,840)</u>
Total other items	<u>-</u>	<u>165,610</u>	<u>165,610</u>	<u>(524,371)</u>
Change in net assets	49,722	1,151,193	1,200,915	(1,190,914)
Net assets at beginning of year	<u>1,415,037</u>	<u>7,927,666</u>	<u>9,342,703</u>	<u>10,533,617</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,464,759</u>	<u>\$ 9,078,859</u>	<u>\$ 10,543,618</u>	<u>\$ 9,342,703</u>

TOSTAN, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	2017			2016	
	Program Services	Supporting Services		Total Expenses	Total Expenses
		General and Administrative	Fundraising		
Salaries and related benefits	\$ 2,473,139	\$ 591,098	\$ 153,619	\$ 3,217,856	\$ 4,218,986
Contract services	421,860	201,767	70,755	694,382	1,012,193
Grants and other assistance	193,668	16,272	10,602	220,542	141,374
Supplies	217,023	14,155	8,264	239,442	225,098
Facilities and equipment	463,296	98,900	33,335	595,531	1,086,215
Travel and meetings	1,550,645	102,451	19,701	1,672,797	2,135,695
Other	-	-	-	-	2
TOTAL	\$ 5,319,631	\$ 1,024,643	\$ 296,276	\$ 6,640,550	\$ 8,819,563

TOSTAN, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016**

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,200,915	\$ (1,190,914)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	111,420	119,294
Unrealized loss (gain) on investments	76	(125)
Realized loss on sales of investments	2,854	-
Debt extinguishment against grants receivable	-	(675,000)
Change in discount on noncurrent grants receivable	21,629	27,907
(Increase) decrease in:		
Grants receivable	(816,495)	(874,661)
Employee receivables	3,343	7,258
Other receivables and advances	90,882	(76,847)
Prepaid expenses and other assets	28,182	(16,824)
Increase (decrease) in:		
Accounts payable and accrued liabilities	<u>7,269</u>	<u>(45,540)</u>
Net cash provided (used) by operating activities	<u>650,075</u>	<u>(2,725,452)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	-	(83,415)
Purchases of investments	-	(39,638)
Proceeds from sales/redemption of investments	<u>38,847</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>38,847</u>	<u>(123,053)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Loan proceeds received	-	1,100,000
Loan repayment	<u>-</u>	<u>(425,000)</u>
Net cash provided by financing activities	<u>-</u>	<u>675,000</u>
Net increase (decrease) in cash and cash equivalents	688,922	(2,173,505)
Cash and cash equivalents at beginning of year	<u>2,146,093</u>	<u>4,319,598</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,835,015</u>	<u>\$ 2,146,093</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Investments Received in Satisfaction of Grants Receivable	<u>\$ 585,566</u>	<u>\$ 1,039,731</u>

See accompanying notes to financial statements.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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, 2016, 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 \$1,110,894 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. 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, 2017

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 temporarily restricted contributions and as capital assets in the year the contribution is received; as the assets are depreciated/amortized, those restricted net assets are released from restrictions. 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). Upon adoption of ASU 2016-14, Tostan will release restricted net assets from restrictions at the time those 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.

Uncertain tax positions -

For the year ended December 31, 2017, 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.

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, 2017, temporarily restricted net assets of \$4,291,751 were released from restrictions as Tostan, Inc. satisfied the restricted purposes imposed by donors. As of December 31, 2017, temporarily restricted net assets totaled \$9,078,859, and included awards (cash, grants receivable and donated software licenses) received from donors to be spent specifically on 2018 program activities.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

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

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.

In-kind contributions -

Tostan receives contributions of donated professional services. During the year ended December 31, 2017, donated professional services (pro-bono legal services) recorded in the accompanying financial statements totaled \$9,119. In-kind contributions are recorded at their fair value as of the date the gift was received by Tostan.

In addition, volunteers have donated significant amounts of their time to Tostan. These donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

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.

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

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

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 measurement -

Tostan adopted the provisions of FASB ASC 820, *Fair Value Measurement*. 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.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of Tostan's financial statements, it is not expected to alter Tostan's reported financial position.

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 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 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, 2017**

2. INVESTMENTS

Investments consisted of the following at December 31, 2017:

	Cost	Fair Value
Equities	\$ <u>4,374</u>	\$ <u>4,374</u>

Following is a summary of interest and investment income for the year ended December 31, 2017:

Interest and dividends	\$ 209
Unrealized loss on investments	(76)
Realized loss on sales of investments	<u>(2,854)</u>
 TOTAL INTEREST AND INVESTMENT INCOME	 \$ <u>(2,721)</u>

3. GRANTS RECEIVABLE

As of December 31, 2017, contributors to Tostan have made written promises to give (which have yet to be collected) totaling \$7,417,035. Grant 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, 2017:

Less than one year	\$ 4,674,864
One to five years	<u>2,742,171</u>
 Total	 7,417,035
Less: Current reserve for uncollectable receivables	(50,000)
Less: Present value discount (noncurrent receivables)	<u>(139,352)</u>
 GRANTS RECEIVABLE, NET	 \$ <u>7,227,683</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2017:

Program Services	\$ <u>9,078,859</u>
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The following temporarily restricted 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	\$ 4,248,205
Amortization of Donated Software Licenses	<u>43,546</u>
	\$ <u>4,291,751</u>

TOSTAN, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

5. FAIR VALUE MEASUREMENT

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.

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, 2017.

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

The table below summarizes, by level within the fair value hierarchy, Tostan's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Category:				
Equities	<u>\$ 4,374</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,374</u>

6. 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, 2017, rent expense (under all worldwide leases) totaled approximately \$90,000.

7. 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, 2017 totaled \$14,450.

TOSTAN, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

8. 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, 2017, Tostan held cash, property and equipment and other assets in overseas offices totaling approximately \$3,700,000, representing 35% of Tostan's total assets.

9. SUBSEQUENT EVENTS

In preparing these financial statements, Tostan has evaluated events and transactions for potential recognition or disclosure through July 12, 2018, the date the financial statements were issued.