BRAC USA, INC.

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2017 AND 2016

BRAC USA, INC.

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LUTZ AND CARR
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
BRAC USA, Inc.

We have audited the accompanying financial statements of BRAC USA, Inc. (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 of 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 auditors' 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.

LUTZ AND CARR
CERTIFIED PUBLIC ACCOUNTANTS, LLP

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BRAC USA, Inc. as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lutz + Carr, LLP

New York, New York
February 13, 2018

BRAC USA, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2017 AND 2016

	2017	2016
Assets		
Cash and cash equivalents (Notes 1b and 10)	$15,951,963	$15,659,167
Unconditional promises to give (Notes 1c and 3)	4,918,767	7,995,502
Accounts receivable	174,652	255,564
Prepaid expenses and other current assets	61,646	16,371
Property and equipment, at cost (net of accumulated depreciation) (Notes 1d and 4)	134,242	36,596
Security deposits	71,599	34,093
Total Assets	$21,312,869	$23,997,293
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 552,694	$ 508,195
Deferred income (Note 1f)	90,228	47,262
Refundable advance (Note 6)	4,526,038	-
Grants payable (Notes 1e and 5)	7,704,436	15,754,716
Deferred rent (Note 1g)	181,023	102,338
Total Liabilities	13,054,419	16,412,511
Commitments (Note 7)		
Net Assets		
Unrestricted		
Board designated reserve (Note 2a)	1,500,000	1,500,000
Other	3,950,373	4,114,781
Total Unrestricted	5,450,373	5,614,781
Temporarily restricted (Note 2b)	2,808,077	1,970,001
Total Net Assets	8,258,450	7,584,782
Total Liabilities and Net Assets	$21,312,869	$23,997,293

BRAC USA, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	**Unrestricted**	**Temporarily Restricted**	**Total**
Changes in Net Assets						
Revenue and Other Support						
Contributions (Note 1c)	$ 669,403	$ 7,794,843	$8,464,246	$ 1,121,442	$15,284,227	$16,405,669
In-kind donations (Note 8)	49,270	-	49,270	326,825	-	326,825
Contract and other revenue (Note 9)	605,899	-	605,899	533,371	-	533,371
Interest income	17,117	-	17,117	11,148	-	11,148
Miscellaneous income	547	-	547	2,685	-	2,685
Net assets released from restrictions	6,956,767	(6,956,767)	-	18,544,445	(18,544,445)	-
Total Revenue and Other Support	8,299,003	838,076	9,137,079	20,539,916	(3,260,218)	17,279,698
Expenses						
Program Services	7,533,861	-	7,533,861	18,851,477	-	18,851,477
Supporting Services						
Management and general	469,908	-	469,908	599,894	-	599,894
Fundraising	459,642	-	459,642	399,478	-	399,478
Total Supporting Services	929,550	-	929,550	999,372	-	999,372
Total Expenses	8,463,411	-	8,463,411	19,850,849	-	19,850,849
Increase (decrease) in net assets	(164,408)	838,076	673,668	689,067	(3,260,218)	(2,571,151)
Net assets, beginning of year	5,614,781	1,970,001	7,584,782	4,925,714	5,230,219	10,155,933
Net Assets, End of Year	$ 5,450,373	$ 2,808,077	$8,258,450	$ 5,614,781	$ 1,970,001	$ 7,584,782

See notes to financial statements.

BRAC USA, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities		
Increase (decrease) in net assets	$ 673,668	$ (2,571,151)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation	18,963	9,636
Deferred rent	78,685	3,112
(Increase) decrease in:		
Unconditional promises to give	3,076,735	(1,398,682)
Accounts receivable	80,912	(92,400)
Prepaid expenses and other current assets	(45,275)	26,735
Security deposits	(37,506)	(172)
Increase (decrease) in:		
Accounts payable and accrued expenses	44,499	302,548
Deferred income	42,966	(90,189)
Refundable advance	4,526,038	-
Grants payable	(8,050,280)	3,888,086
Net Cash Provided By Operating Activities	409,405	77,523
Cash Flows From Investing Activities		
Acquisition of property and equipment	(116,609)	(32,529)
Net increase in cash and cash equivalents	292,796	44,994
Cash and cash equivalents, beginning of year	15,659,167	15,614,173
Cash and Cash Equivalents, End of Year	$15,951,963	$15,659,167

See notes to financial statements.

Note 1 - <u>Organization and Summary of Significant Accounting Policies</u>

a - <u>Organization</u>
BRAC USA, Inc. (the "Organization"), a not-for-profit corporation incorporated in New York, is the North American affiliate of BRAC, a global leader in developing and implementing cost-effective, evidence-based programs to assist the most marginalized people in extremely poor, conflict-prone and post-disaster settings.

Founded in 2006, BRAC USA's purpose is to raise awareness, mobilize resources and make grants to reduce poverty, improve health, provide education and empower women and girls.

b - <u>Cash and Cash Equivalents</u>
The Organization considers all short-term highly-liquid investments, such as money market funds, to be cash equivalents.

c - <u>Contributions and Promises to Give</u>
The Organization reports contributions received as unrestricted, temporarily restricted or permanently restricted support, depending on the existence of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction is met or expires, temporarily restricted net assets are reclassified to unrestricted net assets.

During 2017, the Organization received approximately 56% of its contributions from two foundations and one corporation. During 2016, the Organization received approximately 78% of its contributions from four foundations and one corporation. Approximately 91% and 81% of unconditional promises to give were due from three foundations at September 30, 2017 and three foundations and one corporation at September 30, 2016.

d - <u>Property and Equipment</u>
Property and equipment acquired are recorded at cost. Donated property and equipment, if any, is recorded at its estimated fair value. Property and equipment is depreciated using the straight-line method over the estimated useful life of the related asset.

e - <u>Grant Expense</u>
Unconditional grants are accrued at the time authorized. For grants which are conditional on the recipient fulfilling certain obligations prior to receiving funds, grants are accrued at the time those conditions are satisfied.

f - <u>Deferred Income</u>
Income is deferred upon receipt and is recognized in the period the work takes place per the contracts.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

g - Deferred Rent
The Organization records rent expense associated with its office lease on a straight-line basis over the life of the lease (see Note 7a). The difference between the straight-line amount and the amount actually paid during the year is recorded as a liability and an expense in the accompanying financial statements.

h - Financial Statement Presentation
The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

i - Estimates
The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j - Tax Status
BRAC USA, Inc. is a not-for-profit corporation exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

k - Subsequent Events
The Organization has evaluated subsequent events through February 13, 2018, the date that the financial statements are considered available to be issued.

Note 2 - Restrictions on Net Assets

a - Board Designated Reserve
The Board of Directors of the Organization has established a board designated reserve fund of $1,500,000 for the purposes of assuring longer-term stability and sustainability.

b - Temporarily Restricted Net Assets
Temporarily restricted net assets include funds whose use by the Organization is limited by donor-imposed stipulations that either expire with the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those specifications.

Note 3 - Promises to Give

a - Unconditional Promises to Give

Unconditional promises to give are due as follows:

	2017	2016
Due in less than one year	$4,011,849	$6,085,291
Due in one to five years	944,534	1,997,073
	4,956,383	8,082,364
Less: Discount on present value	(37,616)	(86,862)
	$4,918,767	$7,995,502

Unconditional promises to give for periods due after one year are discounted to net present value using a discount rate of 3%. Uncollectible promises are expected to be insignificant.

b - Conditional Promises to Give

During the year ended September 30, 2014, the Organization received a grant from a private foundation totaling $10 million for the period September 1, 2014 through August 31, 2023. $7,000,000 of the grant is contingent upon the donor's satisfaction with the success of the project including raising financial support from other donors, and accordingly, that portion of the grant has not been recorded in the accompanying financial statements.

During the year ended September 30, 2017, the Organization received a grant from a foundation totaling $1,673,513 denominated in euros (1,490,000 euros) for the period April 15, 2017 through April 15, 2021. $874,088 (740,000 euros) of the grant is contingent upon the Organization meeting certain milestones as defined by the grant agreement and raising financial support from other donors, and accordingly, that portion of the grant has not been recorded in the accompanying financial statements.

Note 4 - **Property and Equipment**

Property and equipment consist of the following at September 30:

	Life	2017	2016
Computer and equipment	5 years	$ 91,715	$ 48,953
Furniture and fixtures	7 years	90,057	17,835
Capitalized software	3 years	69,870	68,245
		251,642	135,033
Less: Accumulated depreciation		(117,400)	(98,437)
		$134,242	$ 36,596

Depreciation expense for the years ended September 30, 2017 and 2016 was $18,963 and $9,636, respectively.

Note 5 - **Grants Payable**

Grants payable are due as follows:

	2017	2016
Payable in less than one year	$6,937,336	$13,316,928
Payable in one to three years	796,153	2,548,935
	7,733,489	15,865,863
Less: Discount to present value	(29,053)	(111,147)
	$7,704,436	$15,754,716

Grants payable due in periods after one year are discounted to net present value using a discount rate of 3%.

Note 6 - Refundable Advance

The Organization and its affiliated entities (BRAC, BRAC International and BRAC UK) jointly support a global collaboration to advance one of BRAC's signature programs. This Ultra-Poor Graduation Initiative ("the Initiative") is funded partially by contracts with governments and non-governmental organizations and partially by philanthropic contributions. In addition, BRAC has committed up to $9.2 million of the initial $20 million five-year budget estimate for the Initiative.

The Organization houses a majority of the staff of the Initiative and incurs the vast majority of the related expenses. In order to alleviate the need to transfer funds on a frequent basis, BRAC and the Organization agreed that the Organization would retain $5,037,009 in cash that was recorded as a grant to BRAC during the year ended September 30, 2015. BRAC, in turn, is satisfying the underlying grant requirements with resources it would otherwise provide to the Organization as part of its commitment to the Initiative.

The Organization recognizes the BRAC commitment as a contribution as expenses are incurred. During the year ended September 30, 2017, the Organization incurred expenses of $510,971 towards the initiative. The remaining balance of $4,526,038 as of September 30, 2017 is recorded as a refundable advance. If at any point in the future the funds are no longer needed for the Initiative, the remaining balance would be refunded to BRAC.

Note 7 - Commitments

a - The Organization is obligated under the terms of a lease for office space through November 30, 2024. In addition to base rent, the lease requires additional rent for utilities and increases in real estate taxes.

The lease provides for minimum annual rentals as follows:

Year Ending September 30,	
2018	$239,792
2019	294,483
2020	300,373
2021	309,258
2022	329,831
Thereafter, through November 30, 2024	737,727

Rent expense for the years ended September 30, 2017 and 2016 was $192,993 and $135,832, respectively.

Note 7 - Commitments (continued)

b - The Organization has a voluntary salary reduction tax deferred 401(k) plan for the benefit of all qualifying employees. The Organization contributes up to 5% of the salary for all participants. Amounts contributed for the years ended September 30, 2017 and 2016 totaled $50,519 and $17,302, respectively.

Note 8 - In-Kind Donations

During the years ended September 30, 2017 and 2016, the Organization received donated services in connection with its programs as follows:

	2017	2016
Legal fees	$37,020	$271,700
Consulting	12,250	55,125
	$49,270	$326,825

In 2017 and 2016, Mayer Brown LLP provided legal services in relation to the BRAC Microfinance portfolio and hosting of Board meetings and fundraising events for the Organization.

Note 9 - Contract and Other Revenue

Income earned by the Organization is principally derived from multiple contracts with The MasterCard Foundation related to project liaison services for BRAC Uganda including the Scholars Program and Microfinance Multiplied Project and contracts related to services provided by the Ultra-Poor Graduation Initiative, including the Government of the Republic of Kenya and BRAC (Note 6). Income is also earned for provision of fundraising and strategic program services to BRAC in Bangladesh related to BRAC University.

Note 10 - Concentration of Credit Risk

The Organization maintains its cash balances at three financial institutions located in New York City. The Organization has not experienced any losses in such accounts and does not believe it is exposed to significant credit risks.

Note 11 - Functional Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

SUPPLEMENTARY INFORMATION

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors of
BRAC USA, Inc.

We have audited the financial statements of BRAC USA, Inc. as of and for the years ended September 30, 2017 and 2016, and our report thereon dated February 13, 2018, which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended September 30, 2017 with comparative totals for 2016 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lutz + Carr, LLP

New York, New York
February 13, 2018

BRAC USA, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED SEPTEMBER 30, 2017 WITH COMPARATIVE TOTALS 2016

		Supporting Services			2017	2016
	Program Services	Management and General	Fundraising	Total	Total Expenses	Total Expenses
Grant expense	$ 5,001,386	$ -	$ -	$ -	$5,001,386	$16,445,853
Salaries, payroll taxes and employee benefits	1,531,890	219,126	280,528	499,654	2,031,544	1,702,443
Professional fees	452,730	112,954	84,625	197,579	650,309	877,061
Contract fees	105,935	-	-	-	105,935	257,773
Business meetings and travel expenses	191,317	83,151	22,796	105,947	297,264	256,504
Occupancy	158,385	14,160	20,448	34,608	192,993	135,832
Miscellaneous	38,292	9,379	23,980	33,359	71,651	72,097
Office supplies and expenses	5,324	23,427	-	23,427	28,751	26,220
Conferences and events	14,605	2,848	3,704	6,552	21,157	22,944
Telecommunications	7,631	1,092	1,398	2,490	10,121	20,215
Marketing and direct mail fees	-	-	17,335	17,335	17,335	12,402
Insurance	12,066	1,726	2,210	3,936	16,002	11,869
Depreciation	14,300	2,045	2,618	4,663	18,963	9,636
Total Expenses, 2017	$ 7,533,861	$ 469,908	$ 459,642	$929,550	$8,463,411	
Percentages to Total, 2017	89%	6%	5%		100%	
Total Expenses, 2016	$18,851,477	$ 599,894	$ 399,478	$999,372		$19,850,849
Percentages to Total, 2016	95%	3%	2%			100%