

THE CITIZENS FOUNDATION, USA

Financial Statements
for the Year Ended December 31, 2015



THE CITIZENS FOUNDATION, USA

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Citizens Foundation, USA
Elk Grove Village, Illinois

We have audited the accompanying financial statements of The Citizens Foundation, USA (a nonprofit organization), which comprise the statement financial position as of December 31, 2015, and the related statements of activities, 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.

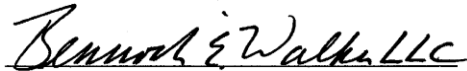
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Citizens Foundation, USA as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter*Change in Accounting Principle and Reclassification of Net Assets*

As discussed in Note 11 to the financial statements, the Organization changed their accounting principle to record pledges receivable. In addition, certain permanently restricted net assets were reclassified to unrestricted net assets – board designated endowment. Accordingly, adjustments have been recorded to the beginning net assets in the December 31, 2015 financial statements to reflect the change in accounting principle and reclassification of net assets. Our opinion is not modified with respect to this matter.



Bennoch & Walker LLC
Certified Public Accountants
Houston, Texas

September 30, 2016

THE CITIZENS FOUNDATION, USA
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015

ASSETS

Cash and cash equivalents	\$ 3,043,519
Pledges receivable, net of allowance \$200,738	56,619
Investments	512,254
Property and equipment, net	2,077
Funds held by TCF Pakistan for long-term investment	<u>500,000</u>
TOTAL ASSETS	<u>\$ 4,114,469</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 1,763
Accrued liabilities	<u>6,691</u>
Total Liabilities	<u>8,454</u>

Net Assets

Unrestricted	
Unrestricted	2,449,016
Board designated funds - endowment	937,254
Temporarily restricted	644,745
Permanently restricted - donor restricted endowment funds	<u>75,000</u>
Total Net Assets	<u>4,106,015</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,114,469</u>
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THE CITIZENS FOUNDATION, USA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public Support and Revenues				
Contributions	\$ 1,018,002	\$ 3,835,045	\$ -	\$ 4,853,047
Grants	150,400	-	-	150,400
Special events, net of direct benefit to donors of \$363,422	1,681,767	-	-	1,681,767
In-kind contributions	39,456	-	-	39,456
Other income	17,185	-	-	17,185
Interest and investment income	10,369	-	-	10,369
Unrealized gain/(loss) on investments	475	-	-	475
Total Public Support and Revenues	<u>2,917,654</u>	<u>3,835,045</u>	<u>-</u>	<u>6,752,699</u>
Net assets released from temporary restrictions	<u>5,631,563</u>	<u>(5,631,563)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenues, and releases from temporary restrictions	<u>8,549,217</u>	<u>(1,796,518)</u>	<u>-</u>	<u>6,752,699</u>
Expenses				
Program services:				
Campus Construction	2,462,856	-	-	2,462,856
Campus Operation	2,701,753	-	-	2,701,753
Scholarship Program	8,964	-	-	8,964
Endowment Grants	<u>1,379,183</u>	<u>-</u>	<u>-</u>	<u>1,379,183</u>
Total Program Expenses	<u>6,552,756</u>	<u>-</u>	<u>-</u>	<u>6,552,756</u>
Supporting Services:				
Management and general	533,736	-	-	533,736
Fundraising	<u>152,675</u>	<u>-</u>	<u>-</u>	<u>152,675</u>
Total Supporting Services	<u>686,411</u>	<u>-</u>	<u>-</u>	<u>686,411</u>
Total Expenses	<u>7,239,167</u>	<u>-</u>	<u>-</u>	<u>7,239,167</u>
Change in Net Assets	1,310,050	(1,796,518)	-	(486,468)
Net Assets, Beginning of Year, as previously stated	<u>966,832</u>	<u>2,441,263</u>	<u>1,080,163</u>	<u>4,488,258</u>
Change in Accounting Principle and Reclassification of Net Assets	<u>1,109,388</u>	<u>-</u>	<u>(1,005,163)</u>	<u>104,225</u>
Net Assets, Beginning of Year, as restated	<u>2,076,220</u>	<u>2,441,263</u>	<u>75,000</u>	<u>4,592,483</u>
Net Assets, End of Year	<u>\$ 3,386,270</u>	<u>\$ 644,745</u>	<u>\$ 75,000</u>	<u>\$ 4,106,015</u>

The accompanying notes are an integral part of these financial statements

THE CITIZENS FOUNDATION, USA
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

	Programs				Total Program	Supporting Services		Total
	Campus Construction	Campus Operation	Scholarship Program	Endowment Grants		Management & General	Fundraising	
Salaries and wages	\$ 26,427	\$ 26,427	\$ -	\$ 26,427	\$ 79,281	\$ 144,150	\$ 16,817	\$ 240,248
Payroll taxes and benefits	2,220	2,220	-	2,220	6,660	12,110	1,413	20,183
	<u>28,647</u>	<u>28,647</u>	<u>-</u>	<u>28,647</u>	<u>85,941</u>	<u>156,260</u>	<u>18,230</u>	<u>260,431</u>
Professional Fees	-	-	-	-	-	25,707	-	25,707
Uncollectible pledges	-	-	-	-	-	200,738	-	200,738
Bank Service fee	-	-	-	-	-	4,990	-	4,990
Travel	-	-	-	-	-	8,120	-	8,120
Venue	-	-	-	-	-	17,621	-	17,621
Meals - Meeting	-	-	-	-	-	1,645	-	1,645
Donation processing fee	-	-	-	-	-	-	47,609	47,609
Depreciation expense	-	-	-	-	-	874	-	874
Insurance	-	-	-	-	-	3,066	-	3,066
Rent & Utilities	4,106	4,106	4,104	4,106	16,422	12,318	12,318	41,058
License & Fees	-	-	-	-	-	326	-	326
IT / Software expenses	-	-	-	-	-	17,822	-	17,822
Postage & Deliveries	-	-	-	-	-	8,829	3,784	12,613
Supplies	-	-	-	-	-	2,537	1,087	3,624
Mileage Reimbursement	403	403	-	403	1,209	2,418	403	4,030
Marketing Consultants	-	-	-	-	-	41,520	-	41,520
Printing	-	-	-	-	-	4,126	9,628	13,754
Digital Media	-	-	-	-	-	1,297	3,027	4,324
Global PR Campaign	-	-	-	-	-	-	5,000	5,000
TV / Radio Ads	-	-	-	-	-	4,400	-	4,400
Promotional Material	-	-	-	-	-	9,790	-	9,790
Travel	1,219	1,219	-	1,219	3,657	7,315	1,219	12,191
Information Session Expenses	336	336	-	336	1,008	2,017	336	3,361
Marketing Gala	-	-	-	-	-	-	50,034	50,034
School Construction	2,428,145	-	-	-	2,428,145	-	-	2,428,145
School Operation	-	2,667,042	-	-	2,667,042	-	-	2,667,042
School Endowments	-	-	-	1,344,472	1,344,472	-	-	1,344,472
Scholarships	-	-	4,860	-	4,860	-	-	4,860
	<u>\$ 2,462,856</u>	<u>\$ 2,701,753</u>	<u>\$ 8,964</u>	<u>\$ 1,379,183</u>	<u>\$ 6,552,756</u>	<u>\$ 533,736</u>	<u>\$ 152,675</u>	<u>\$ 7,239,167</u>

The accompany notes are an integral part of these financial statements

THE CITIZENS FOUNDATION, USA
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015

Cash Flows From Operating Activities

Change in net assets	\$ (486,468)
Adjustments to reconcile change in net assets activities to net cash from operating:	
Depreciation	875
Net realized and unrealized (gain)/loss on investments	(475)
Change in operating assets and liabilities:	
Pledges receivable	47,606
Accounts payable	(30,992)
Accrued expenses	(4,272)
Net Cash from Operating Activities	<u>(473,726)</u>

Cash flows from investing activities

Dividends reinvested	(10,369)
Sales of investments, net of purchases	87,594
Additions to property and equipment	(2,574)
Net cash from investing activities	<u>74,651</u>

Net Change in Cash and Cash Equivalents (399,075)

Cash and Cash Equivalents, Beginning of Year 3,442,594

Cash and Cash Equivalents, End of Year \$ 3,043,519

NOTE 1 – NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Business – The Citizens Foundation, USA (the Organization) was incorporated in May 2002 in the state of Illinois. The Organization, with a support network of volunteer chapters across the USA, supports the building of a civil society in Pakistan and promotes gender equality by providing quality scientific and balanced education for underprivileged children. The Citizens Foundation, USA directs programmatic initiatives to build, equip and operate schools.

The Organization's main programs are building schools, teacher training, mentorship, adult education, and higher education. The Organization is supported through contributions received from individuals, foundations, trusts and corporate institutions.

Basis of Accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation – The Organization's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958-205-45-4, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

Unrestricted net assets - are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations. Unrestricted net assets at December 31, 2015 was \$3,386,270.

Temporarily restricted net assets - are resources that are restricted by a donor for use for a particular purpose or in a particular future period. The Organization's unspent contributions are reported in this class if the donor limited their use, as are promised contributions that are not yet due. The unspent appreciation of the Organization's donor-restricted endowment funds is also reported as temporarily restricted net assets. Temporarily restricted net assets at December 31, 2015 was \$644,745.

Permanently restricted net assets - are resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the Organization's donor-restricted endowment funds that the Organization is committed to maintaining in perpetuity are classified in this net asset class. Permanently restricted net assets at December 31, 2015 was \$75,000.

THE CITIZENS FOUNDATION, USA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

In addition, the Organization is required by FASB ASC 958-205-45-4 to present a statement of cash flows.

Contributions – Contributions received 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 expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Promises to Give – Conditional promises to give are not recognized in the financial statements until the conditions are substantially met. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in more than one year are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. In the absence of donor stipulations to the contrary, promises with payments due in future periods are restricted to use after the due date. Promises that remain uncollected more than one year after their due dates are written off unless the donors indicate that payment is merely postponed.

Contributed Services – No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, campaign solicitations, and various committee assignments. The Organization received more than 30,000 volunteer hours in 2015.

Donated Assets – Donated investments and other noncash donations are recorded as contributions at their fair values at the date of donation.

Donated Property and Equipment – Donations of property and equipment are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Investments – The Organization carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

THE CITIZENS FOUNDATION, USA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

Cash and Cash Equivalents – The Organization considers all monies in banks and highly liquid investments with maturities of three months or less from the date of purchase to be cash and cash equivalents. The carrying values of any cash and cash equivalents are deemed to approximate their fair values because of the short maturities of those financial instruments.

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at fair value at the date of donation. Property and equipment items are depreciated using the straight-line method based on their estimated useful lives ranging from 3 to 5 years. Maintenance and repairs are charged to operations when incurred. Major improvements and renewals that extend the life of the asset are capitalized.

Advertising Cost – Advertising costs are expensed as incurred. Advertising expense for the year ended December 31, 2015 was \$14,190.

Income Taxes – The Organization is a nonprofit corporation that is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (“Code”) and comparable State law, and contributions to it are tax deductible within the limitations prescribed by the Code. The Organization did not conduct any unrelated business activities in the current fiscal year. Therefore, the Organization has made no provision for federal income taxes in the accompanying financial statements.

The Organization applies the provisions of FASB ASC Topic 740, *Income Taxes*, (formerly FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*), which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transition.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

Functional Allocation of Expenses – Expenses are categorized in the Statement of Activities as program services, fundraising and management and general. The Organization’s expenses are allocated on a functional basis among these benefited categories.

Program service expenses include direct and indirect (allocated) expenses for the various programs offered by the Organization. Expenses that can be identified with a specific program and support services are allocated directly according to their natural expenditure classification. Other expenses, that are common to several functions, are allocated to program services by various reasonable bases.

Fundraising expenses represent cost incurred in connection with fundraising efforts. Management and general expenses include those expenses that are not directly identifiable

with any other specific function but provide for the overall support and direction of the Organization.

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 certain estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates. The significant estimates included in the financial statements are the estimates of useful lives used for depreciating property and equipment items.

Fair Value of Financial Instruments – ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157), defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market, establishes a framework for measuring fair value in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date.

The valuation techniques required by ASC 820 are based upon observable and unobservable inputs, and ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities. An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 assets include cash and cash equivalents and investments with a fair value of \$3,043,519 and \$512,254, respectively, as of December 31, 2015.
- Level 2 - Inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 - Significant unobservable inputs that are supported by little or no market activity.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used are to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 2 – PROGRAMS AND SUPPORTING SERVICES

The costs of providing the various programs and other activities are shown in the accompanying statement of functional expenses. The following programs and supporting services are included in the accompanying financial statements:

Schools – The Organization’s school units are established in urban slums and rural areas in 110 towns and cities across Pakistan and Azad Jammu & Kashmir with a balanced gender ratio; close to 50% female students. TCF-USA grants have created thousands of jobs, many of which are female faculty positions. School buildings are equipped with airy and fully furnished classrooms, an administrative block, a play area, library, computer labs and science labs, an art room and all essential facilities to provide students with a stimulating learning environment.

Teacher Training – The Organization recognizes that employees are the most important resource. The Organization is committed to training and developing the entire workforce, particularly school staff. The Organization’s Training team works rigorously with school heads to empower them by developing their leadership and management skills. Concurrently, there are intensive sessions for the teachers ranging from content support across subjects, pedagogical approaches and assessment methods to early childhood education, character building and critical thinking.

Mentorship – Rahbar is a mentorship program aimed at the development of youth as responsible individuals and productive members of society. In line with this, the role of a Rahbar is to encourage the mentee to develop a positive thought process, a vision for his/her future, the plan to realize that vision and the capacity to deal with the failure that he/she will inadvertently confront on this journey. Mentors have included people employed in the corporate sector, housewives, lawyers, engineers, scientists, doctors, teachers & retired personnel – just about anyone who would like to make a meaningful difference in young lives.

Adult Education – Over the past 7 years, the Organization has helped thousands of women become literate under its adult literacy program called Aagahi held at various schools of the Organization. The program is sponsored by National Foods Ltd., and is partnered with Literate Pakistan Foundation. Every year, thousands of women from local communities have learned basic Math and Urdu.

Higher Education – The Organization encourages children to pursue for higher education and believes that no child should ever be left behind in life due to his or her inability to avail opportunities that education offers. The Organization offers an Alumni Program and Scholarship Fund to provide guidance, advice and financial assistance to students every step of the way from admissions, to college entry tests to their choice of majors.

THE CITIZENS FOUNDATION, USA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 3 – PROPERTY AND EQUIPMENT

As of December 31, 2015, property and equipment consisted of the following:

Furniture and fixtures	\$ 2,495
Machinery and equipment	<u>15,771</u>
	18,266
Less: Accumulated depreciation	<u>(16,189)</u>
Property and equipment, net	<u>\$ 2,077</u>

Depreciation expense charged to operations for the year ended December 31, 2015 was \$874.

NOTE 4 – PROMISES TO GIVE RECEIVABLE

The Organization held several fund-raising events for funds to support the various programs of the Organization. The promises to give as of December 31, 2015 amounted to \$257,357, are unconditional and due within the next fiscal year. The allowance for doubtful accounts amounts to \$200,738 for the year ended December 31, 2015. The net promises to give expected by management to be received in the next fiscal is \$56,619.

NOTE 5 – INVESTMENTS

Cost and fair value of investments at December 31, 2015 were as follows:

	Cost	Unrealized Appreciation	Fair Value
Cash held for long-term investments	\$ 78,551	\$ -	\$ 78,551
Exchange Traded Funds	310,807	123,942	434,749
Options (short position)	<u>(1,632)</u>	<u>586</u>	<u>(1,046)</u>
Totals	<u>\$ 387,726</u>	<u>\$ 124,528</u>	<u>\$ 512,254</u>

The fair value of all investments have been measured on a recurring basis using Level 1 inputs. There were no changes in valuation methodologies and related inputs used at December 31, 2015.

The following schedule summarizes the investment return and its classifications recorded in the Statement of Activities for the year ended December 31, 2015.

THE CITIZENS FOUNDATION, USA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Interest and dividend	\$ 10,369	\$ -	\$ 10,369
Unrealized gain/(loss)	1,790	-	1,790
Realized gains/(loss)	<u>(1,315)</u>	<u>-</u>	<u>(1,315)</u>
Totals	<u>\$ 10,844</u>	<u>\$ -</u>	<u>\$ 10,844</u>

NOTE 6 – CONCENTRATION OF CREDIT RISKS

All of a depositor's accounts at an insured depository institution, including all noninterest-bearing transaction accounts, will be insured by the FDIC up to the standard maximum deposit insurance amount (\$250,000), for each deposit insurance ownership category. Additionally, cash and securities held by a customer at a Security Investor Protection Corporation (SIPC) member brokerage firm are protected up to \$500,000 which includes a limit of \$250,000 for cash.

The Organization maintains its cash balances in a national bank. These balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At December 31, 2015, the Organization had approximately \$2,646,000 that were not covered by FDIC insurance.

The Organization's investments amounted to \$512,254 at December 31, 2015, and consist of \$433,704 in exchange traded funds, bonds and equity funds and \$78,551 of cash held for long-term investment, which are held at a brokerage firm. The investments and cash held for long-term investment are fully insured by the SIPC and the FDIC, respectively, at December 31, 2015. These investments are exposed to several risks, such as interest rates, market, and credit risk. 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 Organization's financial statements.

NOTE 7 – DONATED FACILITIES

On December 22, 2014 and August 1, 2013, the Organization entered into lease agreements for certain office space in Houston, Texas and Elk Grove, Illinois, respectively. The initial term of the lease for the Houston office space began January 1, 2015 and is on a month-to-month basis with an aggregate annual base rent of \$120. An analysis of similar office spaced performed by management determined that the fair value of the lease (which also includes services and utilities) was \$24,000 annually on a gross basis.

The initial term of the lease for the Elk Grove office space is for four (4) years that ends August 1, 2017 with monthly rental charges of \$1,000 that is deemed to be a charitable gift by the lessor. Annual rental charges gifted by the lessor was \$12,000 for the year end December 31, 2015.

Accordingly, the Organization has recorded in-kind rent revenue and expense on the statement of activities in the amount of \$36,000 for the year ended December 31, 2015.

NOTE 8 – RELATED PARTY TRANSACTIONS – TCF PAKISTAN

TCF-USA is a US non-profit recognized as a public charity under Section 501(c)(3) of the Internal Revenue Service code. TCF-USA was inspired by the work of TCF in Pakistan, but it has its own independent by-laws and Board of Directors. TCF (Pakistan) is an internationally acclaimed non-profit organization in Pakistan providing formal education to the underprivileged. While TCF-USA financially supports TCF Pakistan and implements most of TCF-USA's programs for education of Pakistani children through TCF in Pakistan, TCF-USA has the discretion to make grants to other educational charities as well. For the year ended December 31, 2015, TCF, USA granted TCF Pakistan approximately \$6,444,000, or ninety-two percent (92%) of TCF-USA's total expenses, for programs related to school construction, school operations, school endowments, and scholarships.

NOTE 9 – SPECIAL EVENTS

The Organization conducts numerous fund-raising events in several cities throughout the year, which provides \$2,045,189 or approximately twenty-nine (29%) of its operating revenues for the year ended December 31, 2015. The gross proceeds raised of \$2,045,189 less the direct costs of benefits to donors of \$363,422 incurred may fluctuate from year-to-year based on economic and other factors.

NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets include unrestricted resources available for the Organization to provide the programs for the education of Pakistani children and the underprivileged by building schools, teacher training, mentorship, adult education, and higher education. The unrestricted net asset amounts available for future operations, at December 31, 2015 was \$3,386,270.

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets include contributions and grants for specific projects managed by the Organization, such as contributions restricted by donors for specific purposes. The temporarily restricted net assets at December 31, 2015 was \$644,745.

NOTE 12 – DONOR-DESIGNATED ENDOWMENTS

The Organization's endowment consists of investment funds established for providing scholarships. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Absent explicit donor stipulations to the contrary, the Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment and Spending Policy. The Organization has adopted investment policies, approved by the Board of Directors and Investment Committee, for endowment assets. The organization will invest only in low-risk, conservative investment vehicles in order to maintain the purchasing power of current assets and future contributions in relation to cost increases and inflation and maximize return within reasonable and prudent levels of risk. Investment assets are invested in a well-diversified asset mix, which includes equity and debt securities that are managed by the Organization's Investment Committee to prevent exposing the fund to unacceptable levels of risk.

With regards to returns on endowments, the Organization has adopted a spending policy which will apply to all endowed funds unless a particular donor has otherwise stipulated spending restrictions. The organization will not spend returns from the endowment if it falls below the original endowment amount. Management, with approval from the Investment Committee, has discretion over how and whether or not surplus returns are used.

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Endowment Net Asset Composition by Type of Fund as of December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment funds	\$ 937,254	\$ -	\$ -	\$ 937,254
Donor-restricted endowment funds	-	-	75,000	75,000
Total Funds	<u>\$ 937,254</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 1,012,254</u>

Changes in Endowment Net Assets for the year ended December 31, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-designated endowment and permanently restricted net assets, beginning of year	<u>\$ 1,013,370</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 1,088,370</u>
Contributions	12,413	-	-	12,413
Investment return:				
Investment income	10,369	-	-	10,369
Net appreciation	475	-	-	475
Total Investment Return	<u>10,844</u>	<u>-</u>	<u>-</u>	<u>10,844</u>
Amounts appropriated for expenditure	<u>(99,373)</u>	<u>-</u>	<u>-</u>	<u>(99,373)</u>
Board-designated endowment and permanently restricted net assets, end of year	<u>\$ 937,254</u>	<u>\$ -</u>	<u>\$ 75,000</u>	<u>\$ 1,012,254</u>

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE AND RECLASSIFICATION OF NET ASSETS

During the year ended December 31, 2015, the Organization changed their accounting policy to recognize pledges receivable. In addition, certain permanently restricted net assets were reclassified to board-designated endowment. The Organization restated the beginning net assets by increasing pledge receivables and unrestricted net assets by \$104,225; and decreasing permanently restricted net assets and increasing unrestricted net assets board-designated endowment by \$1,005,163. The adjustment had no effect on the current years change in net assets.

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	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets, Beginning of Year, as previously stated	\$ 966,832	\$ 2,441,263	\$ 1,080,163	\$ 4,488,258
Change in Accounting Principle - pledges less allowance for doubtful accounts	104,225	-	-	104,225
Reclassification of net assets	<u>1,005,163</u>	<u>-</u>	<u>(1,005,163)</u>	<u>-</u>
Net Assets, Beginning of Year, as restated	2,076,220	2,441,263	75,000	4,592,483
Change in Net Assets	<u>1,310,050</u>	<u>(1,796,518)</u>	<u>-</u>	<u>(486,468)</u>
Net Assets, End of Year	<u>\$ 3,386,270</u>	<u>\$ 644,745</u>	<u>\$ 75,000</u>	<u>\$ 4,106,015</u>

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 30, 2016; the date financial statements were available to be issued. No change to the financial statements for the year ended December 31, 2015 is deemed necessary as a result of this evaluation.