

SAMASOURCE, INC.

DECEMBER 31, 2015

INDEPENDENT AUDITORS' REPORT

AND

CONSOLIDATED FINANCIAL STATEMENTS

Samasource, Inc.

Independent Auditors' Report and Consolidated Financial Statements

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Independent Auditors' Report

THE BOARD OF DIRECTORS
SAMASOURCE, INC.
San Francisco, California

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **SAMASOURCE, INC. AND SUBSIDIARIES (the Organization)** which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Samasource, Inc. as of December 31, 2015, and the changes 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.

Report of Summarized Comparative Information

We have previously audited the Organization's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
July 24, 2016

Samasource, Inc.

Consolidated Statement of Financial Position

<i>December 31, 2015 (with comparative totals for 2014)</i>	2015	2014
Assets		
Cash and cash equivalents	\$ 1,633,102	\$ 6,264,788
Accounts receivable, net	833,170	805,783
Grants and contracts receivable	342,159	
Related party receivables	23,386	103,342
Other current assets	71,180	115,428
Property and equipment, net	430,656	50,242
Total assets	\$ 3,333,653	\$ 7,339,583
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 534,343	\$ 404,851
Deferred revenue	331,392	1,466,523
Accrued expense	199,359	357,417
Loans payable	300,000	
Total liabilities	1,365,094	2,228,791
Net Assets:		
Unrestricted	900,327	2,552,379
Temporarily restricted	1,068,232	2,558,413
Total net assets	1,968,559	5,110,792
Total liabilities and net assets	\$ 3,333,653	\$ 7,339,583

See accompanying notes to financial statements.

Samasource, Inc.

Consolidated Statement of Activities and Changes in Net Assets

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015					2014 Total
	Impact Sourcing	Other Program Activities	Total Unrestricted	Temporarily Restricted	Total	
Revenue and Support:						
Grants and contributions		\$ 181,594	\$ 181,594	\$ 1,186,691	\$ 1,368,285	\$ 2,007,892
Fee for services	\$ 5,348,710		5,348,710		5,348,710	5,909,650
Contract services		1,048,171	1,048,171		1,048,171	1,195,373
Special event revenues		202,715	202,715		202,715	555,590
Other income		10,352	10,352		10,352	13,320
Net assets released from restrictions		2,676,872	2,676,872	(2,676,872)		
Total revenue and support	5,348,710	4,119,704	9,468,414	(1,490,181)	7,978,233	9,681,825
Expenses:						
Program services	6,987,174	2,393,848	9,381,022		9,381,022	8,377,263
Development		522,018	522,018		522,018	1,203,899
Management and administrative	949,591	267,835	1,217,426		1,217,426	1,170,348
Total expenses	7,936,765	3,183,701	11,120,466		11,120,466	10,751,510
Change in Net Assets	<u>\$ (2,588,055)</u>	<u>\$ 936,003</u>	(1,652,052)	(1,490,181)	(3,142,233)	(1,069,685)
Net Assets, beginning of year			<u>2,552,379</u>	<u>2,558,413</u>	<u>5,110,792</u>	<u>6,180,477</u>
Net Assets, end of year			<u>\$ 900,327</u>	<u>\$ 1,068,232</u>	<u>\$ 1,968,559</u>	<u>\$ 5,110,792</u>

See accompanying notes to financial statements.

Samasource, Inc.

Consolidated Statement of Functional Expenses

Year Ended December 31, 2015 (with comparative totals for 2014)

	2015				2014 Total
	Program Services	Development	Management and Administrative	Total	
Salaries	\$ 4,110,532	\$ 350,423	\$ 560,135	\$ 5,021,090	\$ 4,092,714
Payroll taxes and benefits	587,577	61,554	108,303	757,434	519,697
Total salaries, payroll taxes and benefits	4,698,109	411,977	668,438	5,778,524	4,612,411
Medical partner payments	375,470			375,470	104,010
Service partner fees	2,748,393			2,748,393	2,883,486
Professional fees	807,620	5,214	194,547	1,007,381	1,200,796
Marketing	55,345	7,649		62,994	462,285
Event costs	4,141	13,062		17,203	421,560
Travel	275,041	61,640	18,770	355,451	326,409
Legal fees	30,789		26,215	57,004	41,852
Supplies & office expense	97,921	4,253	84,145	186,319	174,401
Occupancy	122,961	2,714	108,345	234,020	160,638
Fees	53,638	4,054	2,153	59,845	14,769
Miscellaneous expenses	18,019	51	11,565	29,635	26,322
Dues and subscriptions	23,250	5,492	15,429	44,171	21,017
Insurance	18,529	1,479	42,972	62,980	43,414
Conferences	23,930	4,433	299	28,662	22,622
Bad Debt	(8,115)			(8,115)	207,079
Depreciation	35,981		44,548	80,529	28,439
Total expenses	\$ 9,381,022	\$ 522,018	\$ 1,217,426	\$ 11,120,466	\$ 10,751,510

See accompanying notes to financial statements.

Samasource, Inc.

Consolidated Statement of Cash Flows

<i>Year Ended December 31, 2015 (with comparative totals for 2014)</i>	2015	2014
Cash Flows from Operating Activities		
Change in net assets	\$ (3,142,233)	\$ (1,069,685)
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	80,529	28,439
Loss on disposal of property and equipment		
Allowance for doubtful accounts	(8,115)	207,079
Changes in assets and liabilities:		
Accounts receivable	(19,272)	(332,474)
Related party receivables	(23,386)	
Grants receivable	(342,159)	2,095,268
Other current assets	52,805	(56,205)
Accounts payable	129,492	102,971
Deferred revenue	(1,135,131)	43,682
Accrued expense	(158,058)	243,861
Net cash (used) provided by operating activities	(4,565,528)	1,262,936
Cash Flows from Investing Activities		
Loan to related party	(128,406)	(103,342)
Repayment of related party loan	231,748	
Investment in subsidiary	(8,557)	
Purchases of property and equipment	(460,943)	(23,095)
Net cash used by investing activities	(366,158)	(126,437)
Cash Flows from Financing Activities		
Borrowing on loans payable	300,000	
Net cash provided by investing activities	300,000	-
Net (Decrease) Increase in Cash and Cash Equivalents	(4,631,686)	1,136,499
Cash and Cash Equivalents, beginning of year	6,264,788	5,128,289
Cash and Cash Equivalents, end of year	\$ 1,633,102	\$ 6,264,788

See accompanying notes to financial statements.

Samasource, Inc.

Consolidated Notes to Financial Statements

Note 1 - Organization:

Samasource, Inc. (the Organization) is an independent nonprofit organization founded in 2008 that connects people living in poverty to work via the Internet. The Organization through its Impact Sourcing program and activities provides high-quality content moderation, data entry, and other outsourcing services to clients.

The Organization's San Francisco-based Impact Sourcing sales and delivery teams work with clients to move large data projects to a proprietary online work distribution system, the SamaHub. Dedicated, full-time workers around the world access the SamaHub from delivery centers monitored by the Organization staff. The Organization account managers and quality assurance professionals ensure quality, accuracy, and on-time delivery.

The Organization launched two pilot programs in 2012, Samaschool (formerly SamaUSA), and Samahope. In 2013, Samahope was incorporated as a wholly-owned subsidiary of the Organization. Samaschool provides low-income Americans with digital skills, access to technology, and work experience so they can move out of poverty. Samahope is a crowdfunding platform that allows anyone, anywhere to fund doctors providing critical medical care for people in need. The two pilot programs, as well as activities related to overall organization fundraising and impact measurement, are presented in the accompanying Consolidated Statement of Activities and Changes in Net Assets as "Other Program Activities." In December 2015, the Samahope program transferred its medical sponsorships and donor relationships to Johnson & Johnson's CaringCrowd® online support platform for no consideration and the program wound down.

The Organization's major sources of revenue consist of contributions and fees for service from its Impact Sourcing activities.

Note 2 - Summary of Significant Accounting Policies:

a. Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and Samahope (collectively "the Organization"). All significant intercompany accounts and transactions have been eliminated.

b. Basis of Presentation and Description of Net Assets

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Organization reports information regarding its financial position and activities according to their classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor-imposed stipulations.

Samasource, Inc.

Consolidated Notes to Financial Statements

Temporarily Restricted Net Assets

The portion of net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization.

Permanently Restricted Net Assets

The portion of net assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. At December 31, 2015, the Organization did not have any permanently restricted net assets.

c. Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Organization considers interest bearing demand deposits to be cash equivalents.

d. Revenue Recognition

Contributions and grants are recognized at their fair value when the donor/grantor makes an unconditional promise to give to the Organization. Restricted contributions and grants 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. Unconditional promises to give due within one year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value. Grants receivable are expected to be collected within the subsequent fiscal year. Grant awards that are considered by the donor to be reciprocal, contracts for services agreements (contract services) are recognized as unrestricted revenue as earned.

Conditional promises to give are not recorded as contribution revenue until the conditions are substantially met. The Organization received a conditional promise to give from one organization of \$75,000, which has not been recorded at December 31, 2015.

The Organization generated revenue from one contract service agreement awarded in 2012; the total committed value of this agreement was \$5,294,635 of which \$1,048,171 and \$3,072,308 was earned in 2015 and 2012 - 2014, respectively.

Fees for service are recognized as revenue as earned. Deferred revenue consists of fees for services, contract services, and events collected in advance. At December 31, 2015, the Organization had \$331,392 in deferred revenue related to the prepayment of fees for service collected in advance.

Samasource, Inc.

Consolidated Notes to Financial Statements

The Organization uses the allowance method to account for uncollectible fees for service and contributions based on historical experience and an evaluation of the outstanding receivables at the end of the year.

e. Contributed Services

Contributed services are recognized as in-kind revenues at their estimated fair value if they require specialized skills that would need to be purchased if they are not donated. Contributed services are recognized as in-kind revenues at their estimated fair value. For the year ended December 31, 2015, the Organization recognized in-kind services of \$635 primarily for legal services related to meeting room use.

f. Property and Equipment

Property and equipment purchases are stated at cost and are capitalized if these expenditures are \$1,000 or more and with a useful life in excess of one year. Assets acquired by contribution or bequest are stated at fair value at the date of acquisition.

Depreciation and amortization are provided using the straight-line method over the estimated useful life of three to thirty nine years. Maintenance and repairs are charged to expense as incurred.

g. Functional Expense Allocations

Expenses such as depreciation, supplies, telephone and communications, and occupancy costs, are allocated among program and supporting service classifications on the basis of time estimates, head counts, and other criteria determined by the Organization's management.

h. Foreign Currency Transactions and Translations

Assets and liabilities denominated in foreign currencies at year end are translated into U.S. dollars based upon exchange rates at December 31, with any resulting adjustment included in fees in the Consolidated Statement of Functional Expenses. Transactions in foreign currencies during the year are translated into U.S. dollars at the exchange rate prevailing on the transaction date and recorded as part of fees in the Consolidated Statement of Functional Expenses. The total foreign currency recorded in fees in the Consolidated Statement of Functional Expenses was \$27,730 for the year ended December 31, 2015. Such transactions generally relate to the operations of the Impact Sourcing Center in Nairobi, Kenya.

i. Income Tax Status

The Organization is a tax-exempt organization under the Internal Revenue Code, Section 501(c)(3) and related California code sections. Accordingly, no provision for income taxes has been reflected in these financial statements.

Samasource, Inc.

Consolidated Notes to Financial Statements

Management evaluated Samasource's and Samahope's tax positions and concluded that they had maintained their tax exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

j. 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

k. Comparative Financial Statements

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

l. Reclassifications

Certain reclassifications have been made to the prior year financial statements in conformity to the current year presentation. There was no effect on net assets as a result of the reclassifications.

m. New Accounting Pronouncements

Pronouncements Effective in the Future

In February 2016, the Financial Accounting Standards Board (FASB) issued authoritative guidance regarding Leases. The new standard will supersede much of the existing authoritative literature for leases. This guidance requires lessees, among other things, to recognize right-of-use assets and liabilities on their balance sheet for all leases with lease terms longer than twelve months. The standard will be effective for the Organization, since it is not deemed a public business entity, for its fiscal year beginning after December 15, 2019, and for interim periods beginning after December 15, 2020 with early application permitted. Entities are required to use modified retrospective application for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements with the option to elect certain transition reliefs. The Organization is currently evaluating the guidance and we are not certain of the impact but are assessing its implications.

Samasource, Inc.

Consolidated Notes to Financial Statements

n. Subsequent Events

The Organization evaluated subsequent events from December 31, 2015 through July 24, 2016, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements, except as disclosed in Notes 4, 8 and 10.

Note 3 - Property and Equipment:

Property and equipment consists of the following at December 31, 2015:

Computer and office equipment	\$ 231,492
Vehicle	85,845
Furniture	49,817
Leasehold improvements	218,175
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	585,329
Less: Accumulated depreciation	154,673
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	\$ 430,656

Note 4 - Commitments and Contingencies:

The Organization maintains a lease for office space in San Francisco under a non-cancelable operating lease expiring in March 2017, lease agreements for Samaschool's classroom space in two locations, and four lease agreements for an office and field delivery center ("Impact Sourcing Center") in Nairobi, Kenya.

Under the terms of the non-cancelable San Francisco operating lease, the Organization is obligated to pay escalation rentals, based upon the Consumer Price Index for all Urban Consumers for the San Francisco/Oakland Metropolitan Area and has the option to renew for five years at market rental rates. In 2015, the first three months of lease payments were \$5,236 per month and the remainder monthly lease payments were \$5,390.

Subsequent to year end, the Organization renewed the San Francisco operating lease for an additional term of ten years expiring March 15, 2027. Commencing March 16, 2018 through March 15, 2027, the minimum monthly rent shall be adjusted in accordance with Bay Area C.P.I. Adjustments annually with the new initial base rent starting March 16, 2017 of \$5,800.

In 2015, Samaschool leased two classroom spaces in Merced and Bayview on a month-to-month basis at monthly rate of \$500 and \$1,400, respectively. The Bayview rental agreement was discontinued May 31, 2015.

The four non-cancelable operating lease agreements payable in Kenyan Schillings for Nairobi, Kenya offices and Impact Sourcing Center expire at varying dates between January 31, 2017 and March 31, 2022 and include annual rental escalation between 7.5% to 10% per year.

Samasource, Inc.

Consolidated Notes to Financial Statements

Minimum future rental payments in \$USD in exchange rates in effect at year-end under the non-cancelable leases for Nairobi office space are summarized below.

Years ending December 31:	
2016	\$ 177,000
2017	185,300
2018	195,200
2019	211,400
2020	224,800
Thereafter	141,700
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	\$ 1,135,400

Total rent expense for the year ended December 31, 2015 was \$176,892 and the total amount of subtenant rental revenue received was \$5,401.

Note 5 - Impact Sourcing Activities

Impact Sourcing activities, which include fee for services, are detailed as follows for the year ended December 31, 2015. The gross revenue and expenses of the Impact Sourcing activities are as follows:

Fee for services revenues	\$ 5,348,710
Less Expenses:	
Related program expenses	6,987,174
Related administrative expenses	949,591
	<hr/>
Impact Sourcing Deficit	\$ (2,588,055)

Note 6 - Temporarily Restricted Net Assets:

As of December 31, 2015, temporarily restricted net assets are available for the following purposes or periods:

Program activities	\$ 681,618
For future periods	386,614
	<hr/>
Total temporarily restricted net assets	\$ 1,068,232

Samasource, Inc.

Consolidated Notes to Financial Statements

During 2015, net assets were released from donor restrictions by incurring expenses satisfying the purpose or time restrictions specified by donors as follows:

Purposes restriction accomplished:	
Expanding Impact Sourcing	\$ 1,600,959
Samaschool Program Development	119,753
Samahope Program Development	310,370
Time restrictions met	645,790
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	\$ 2,676,872
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Note 7 - Concentration of Credit Risk:

The Organization has identified its financial instruments which are potentially subject to credit risk. These financial instruments consist principally of cash and receivables.

The majority of receivables consist primarily of unsecured amounts due from individuals and customers. For the year ended December 31, 2015, approximately 39% of fee for service revenue was from three customers and 46% of unrestricted contributions were received from five individuals and organizations.

Note 8 - Loans Payable:

During 2015, the Organization entered into a loan agreement with DOEN Foundation towards financing the launch of the Organization's Impact Sourcing Center in Nairobi, Kenya. The unsecured loan in the amount of \$300,000 carries an annual interest rate of 3% payable annually on June 1 of each year and the principal is repayable in full on December 31, 2019.

Subsequent to year-end, the Organization entered into a loan agreement with DOEN Foundation for an additional \$200,000 to fund expansion of the Impact Sourcing Center in Nairobi, Kenya. The loan is unsecured and carries an annual interest rate of 3% payable annually on June 1 of each year and principal is repayable in full on December 31, 2017. In conjunction with this additional loan, the repayment schedule of the \$300,000 loan from DOEN was amended to be repayable in full on December 31, 2017.

Note 9 - Retirement Plan:

The Organization has a 401(k) defined contribution plan (the Plan) with discretionary matching employer contributions. The Organization contributes matching contributions of up to 5% of the salary deferral of eligible employees to the Plan. The Organization's matching contributions to the Plan for the year ended December 31, 2015 was \$80,767.

Samasource, Inc.

Consolidated Notes to Financial Statements

Note 10 - Related Party Transactions and Organizations:

For the year ended December 31, 2015, total contributions by members of the Board of Directors was approximately \$65,300 and all were paid during the year.

During 2015, the Organization became a minority member, with special mission anchoring rights, of LCJ Ventures, a limited liability subsidiary holding company. The purpose of the holding company is to seed formation of mission aligned for-profit ventures. Following the formation of the holding company, the Organization formalized the terms of a note receivable from Laxmi Inc., a subsidiary of the holding company, in the amount of \$230,000 at an interest rate of 5% per annum, of which \$103,342 was recorded as related party receivable as of December 31, 2014. During 2015, an additional \$128,406 was advanced on behalf of Laxmi. In August 2015, Laxmi repaid the full amount outstanding under the note receivable of \$231,748. During 2015, the Organization incurred costs of \$8,557 related to its portion of the incorporation and legal fees for its minority interest and is recorded in other assets at December 31, 2015.

As part of a service sharing agreement, the Organization performs certain administrative support services for Laxmi Inc. for which it is reimbursed. For the year ended December 31, 2015, \$15,876 was earned from Laxmi Inc. for services and offset against expenses. At December 31, 2015, \$6,580 is receivable and recorded as related party receivable.

At December 31, 2015, a related party receivable from LCJ Ventures in the amount of \$16,806 is outstanding related to its portion of incorporation and legal fees paid by the Organization.

Note 11 - Subsequent Events:

Subsequent to year-end, the Organization was awarded two recoverable grants in the amount of \$100,000 and \$75,000 to fund expansion of the Impact Sourcing Center in Nairobi, Kenya. The grants stipulate a repayment schedule and accrue interest at 3% per annum. The \$100,000 recoverable grant requests repayment in four equal installments of \$26,500 on June 30 and December 31, 2017, and June 30 and December 31, 2018. The \$75,000 recoverable grant requests repayment in three equal installments of \$25,750 on June 30 and December 31, 2018, and June 30, 2019.

As shown in the accompanying consolidated financial statements, for the year ended December 31, 2015, the Organization incurred a decrease in net assets of \$3,142,233 in part as a result of fulfilling donor restrictions on contributions from prior years. Subsequent to year end, the Organization received an additional \$375,000 in loans to fund the expansion of the Impact Sourcing Center in Nairobi, Kenya, as mentioned above and in Note 8. Unaudited results as of June 30, 2016 showed an increase of net assets of \$247,027. Management believes continuing increases in fees for service from Impact Sourcing activities will contribute toward achieving continued increase in net assets.