PROXIMITY DESIGNS

FINANCIAL STATEMENTS

For the Year Ended
June 30, 2016

WIN THIN AND ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS,
YANGON, MYANMAR.

PROXIMITY DESIGNS
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR PROXIMITY DESIGNS

It is the responsibility of the management to prepare the financial statements for each fiscal year which gives a true and fair view of the financial position of Proximity Designs (the Organization) as of 30 June 2016 and of its financial performance and its cash flows for the period 1 July 2015 to 30 June 2016. In preparing these financial statements, the management is required to:

- Select suitable accounting policies and then apply them consistently; and
- Make judgments and estimates that are reasonable and prudent.

The management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Organization. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Organization and to prevent and detect fraud and other irregularities.

On behalf of Management

James D. Taylor
CEO Proximity Designs
December 1, 2016

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WIN THIN & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

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Ref: 690 /P-67/June 2016

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Proximity Designs
South Pasadena, CA, USA

We have audited the accompanying statement of financial position of Proximity Designs (a nonprofit organization) as of June 30, 2016 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the management of Proximity Designs. Our responsibility is to express an opinion on these financial statements based upon 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Proximity Designs as of June 30, 2016 and the changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Nay Min Thant (PA-466)
Partner
WIN THIN & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

December 1, 2016

PROXIMITY DESIGNS

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016
Currency – United States Dollars

ASSETS	
CURRENT ASSETS	
Cash and cash equivalent	5,120,999
Loans receivable (Note 4)	12,059,428
Grants & Pledges Receivable (Note 5)	1,986,300
Product inventories (Note 6)	264,215
Prepaid Expense	468,217
Total Current Assets	**19,899,159**
NON-CURRENT ASSETS	
Grants & Pledges Receivable (Note 5)	1,053,057
Fixed assets-Net (Note 7)	296,642
Total Non-Current Assets	**1,349,699**
Total Assets	**21,248,858**
LIABILITY AND NET ASSETS	
Current Liabilities (Note 8)	5,370,830
Total Current Liabilities	**5,370,830**
Non-Current Liabilities (Note 9)	4,213,735
Total Non-Current Liabilities	**4,213,735**
Total Liabilities	**9,584,565**
Net Assets	
Unrestricted Net Assets	3,513,539
Temporarily Restricted Net Assets	6,674,068
Permanently Restricted Net Assets	1,476,686
Total Net Assets	**11,664,293**
Total Liabilities and Net Assets	**21,248,858**

See Accompanying Notes to the Financial Statements

James D. Taylor
CEO Proximity Designs
December 1, 2016

PROXIMITY DESIGNS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
Currency – United States Dollars

REVENUES	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Grant income	1,204,775	2,236,572		3,441,347
Private Donations & Public Support	42,782			42,782
Product Sale income	571,249			571,249
Service fees income	2,332,270			2,332,270
Interest income	44,754			44,754
Others	6,090			6,090
Net Assets released from restrictions	5,214,177	(5,214,177)		0
Total Revenues	**9,416,097**	**(2,977,605)**		**6,438,492**
EXPENSES				
Yetagon Irrigation	(1,476,072)			
Yetagon Energy	(30,754)			
Yetagon Farm Advisory Services	(1,208,878)			
Proximity Research	(1,191,068)			
Yetagon Credit	(9,398)			
Proximity Finance	(2,357,471)			
Total Program Expense	**(6,273,641)**			**(6,273,641)**
General & Administrative	(609,573)			(609,573)
Fundraising	(176,155)			(176,155)
Total Expenses	**(7,059,369)**			**(7,059,369)**
Surplus/(Deficit)from Operating Activities	**2,356,728**	**(2,977,605)**		**(620,877)**
Remeasurement Gain/(Loss)	(575,465)			(575,465)
Total Net Surplus/(Deficit) for the Year	**1,781,263**	**(2,977,605)**		**(1,196,342)**
Net assets, beginning of the year	1,796,646	9,651,673	1,514,236	12,962,555
Exchange rate adjustment	(64,370)		(37,550)	(101,920)
Net Assets, end of the year	**3,513,539**	**6,674,068**	**1,476,686**	**11,664,293**

See Accompanying Notes to the Financial Statements

James D. Taylor
CEO Proximity Designs
December 1, 2016

PROXIMITY DESIGNS

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED JUNE 30, 2016
Currency – United States Dollars

Cash flow from operating activities	
Net Surplus (Deficit) for the Year	(1,196,342)
Adjustment for:	
Depreciation	108,128
Loan loss provision	55,553
Exchange rate adjustment for Loan loss provision	(18,251)
Exchange rate adjustment for property and equipment	3,069
Exchange rate adjustment for short term borrowing	(80,090)
Exchange rate adjustment for long term borrowing	(64,841)
Exchange rate adjustment for equity	(101,920)
Change in operating assets and liabilities:	
(Increase) / Decrease in grants & pledges receivable	3,241,890
(Increase) / Decrease in deferred revenue	824,424
(Increase) / Decrease in non-grant accounts receivable	(4,585,827)
(Increase) / Decrease in product inventory	(28,085)
(Increase) / Decrease in prepaid expenses	(279,519)
Increase / (Decrease) in accounts payable	133,640
Increase / (Decrease) in withholding taxes & other liabilities	10,729
Net Cash provided by operating activities	**(1,977,441)**
Cash flow from investing activities	
Purchase of property and equipment	(123,804)
Net cash flow used by investing activities	**(123,804)**
Cash flow from financing activities	
Repayment of short-term borrowing	(61,204)
Proceeds from fixed deposits	1,772,400
Proceeds from long-term borrowing	2,390,000
Net cash flow from financing activities	**4,101,196**
Net (Increase) / Decrease in cash and cash equivalents	1,999,951
Cash and Cash equivalents at beginning of the year	3,121,048
Cash and Cash equivalents at end of the year	**5,120,999**

James D. Taylor
CEO Proximity Designs
December 1, 2016

Proximity Designs

Statement of Functional Expenses

For the Year Ended June 30, 2016

	Yetagon Irrigation	Yetagon Energy	Yetagon Farm Advisory Services	Proximity Research	Proximity Finance	Total Programs	General & Administrative	Fundraising	Overall Total
Cost of good sold	(551,645)	(26,651)	-	-	-	(578,296)	-	-	(578,296)
Salaries, wages & benefits	(261,009)	(817)	(366,518)	(110,279)	(1,195,472)	(1,934,096)	(303,319)	(151,414)	(2,388,828)
Material & equipment expenses	(1,931)	-	(68,895)	-	(53,300)	(124,125)	(1,290)	(182)	(125,597)
Contract services expenses	(11,339)	-	(359,313)	(725,522)	(106,910)	(1,203,083)	(63,773)	(1,717)	(1,268,573)
Office expenses	(13,488)	-	(17,705)	(571)	(63,101)	(94,866)	(9,587)	(1,110)	(105,563)
Facility expenses	-	-	(25,502)	-	(36,550)	(62,053)	(146,761)	-	(208,814)
Travel & transportation expenses	(91,925)	-	(51,760)	(91,108)	(109,181)	(343,974)	(35,487)	(20,047)	(399,508)
Meeting & workshop expenses	(7,563)	-	(44,552)	(111,123)	(39,711)	(202,950)	(7,902)	(1,512)	(212,364)
Other general administrative	(100,973)	(3,286)	(12,543)	(9,165)	(625,397)	(751,363)	(41,455)	(174)	(792,991)
Direct allocation expenses	(309,364)	-	(69,484)	(2,368)	-	(381,217)	-	-	(381,217)
Allocated Shared Service Center expenses	(136,233)	-	(192,606)	(140,931)	(127,847)	(597,618)	-	-	(597,618)
Total Expenses	**(1,485,470)**	**(30,754)**	**(1,208,878)**	**(1,191,068)**	**(2,357,471)**	**(6,273,641)**	**(609,573)**	**(176,155)**	**(7,059,369)**
Remeasurement FOREX Gain/Loss						(575,465)			(575,465)

PROXIMITY DESIGNS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016
Currency – United States Dollars

1. Organization and Nature of Activities

Proximity Designs is a not-for-profit 501(c) (3) corporation registered in the State of California with sole operations in Myanmar. Proximity Designs' mission is to increase the productivity and income of rural households in Myanmar by designing and disseminating innovative products and services.

Proximity has signed a Memorandum of Understanding with the Ministry of Livestock, Fisheries and Rural Development. Proximity Designs operates throughout Myanmar in Kayin, Mon, Shan, Ayeyarwaddy, Bago, Magway, Mandalay, Sagaing and Yangon states.

Proximity Designs also holds a Micro Finance License from the Myanmar Ministry of Finance and offers small agricultural loans to farmer customers

Active programs are:

- Irrigation equipment ("Yetagon Irrigation")
    - Product Loans ("Yetagon Credit") is now reported as part of Yetagon Irrigation
- Farm Advisory Services ("Yetagon Farm Advisory Services")
- Proximity Research
- Micro Finance ("Proximity Finance")

Programs finished during the fiscal during or before the fiscal started:

- Solar Lights ("Yetagon Energy")
- Delta Village Stimulus
- Dry Zone Village Stimulus

2. Summary of significant accounting policies

Basis of Presentation
Proximity Designs reports information regarding its financial position and activities according to three classes of net assets: *unrestricted, temporarily restricted and permanently restricted net assets.* Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Method of Accounting
The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Foreign Currency Transactions
The financial statements are presented in U.S. Dollars which, based on management's assessment of facts and circumstances, is Proximity's functional currency and reporting currency.

Transactions in currencies other than U.S. Dollars are converted into U.S. Dollars using monthly exchange rates. The monthly exchange rates are determined at the first day of each month based on the rates published by the Central Bank of Myanmar. At the reporting date, monetary assets and liabilities denominated in foreign currency are converted into U.S. Dollars at the rate of exchange for that month. Non-monetary assets and liabilities in foreign currencies that are stated at historical cost are translated at the foreign exchange rates using monthly exchange rates

Income Taxes

Proximity Designs has been recognized by the Internal Revenue Service as an organization that is exempt from income tax under Section 501(c) (3) of the Internal Revenue Code and has been recognized by the Franchise Tax Board as an organization that is exempt from income and franchise tax under Section 23701(d) of the California Revenue and Taxation Code, except for taxes on net unrelated business income.

In accordance with FASB ASC 740, Uncertainty in Income Taxes, Proximity Designs recognizes the impact of positions in the financial statements if that position is more likely than not to be sustained on audit, based on the technical merits of the position. The Organization is subject to US federal and California state tax jurisdictions. Proximity Designs has evaluated its tax positions for the open tax year of June 30, 2015 through June 30, 2016 for federal tax purposes and June 30, 2014 through June 30, 2016 for California tax purposes.

As of June 30, 2016 and for the year then ended, Proximity has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements or which may have an effect on its tax exempt status nor is a material change to uncertain tax positions anticipated during the 12 months following June 30, 2016.

Cash and Cash Equivalents

Cash is defined as cash in demand deposit, savings and money market accounts as well as cash on hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and investments so near their maturity date that the risk of changes in value due to changes in interest rates is negligible. These are generally investments with original maturity dates within three months of the acquisition date.

Accounts & Loans Receivable

Accounts receivable consist of receivables recorded upon recognition of revenue based on contractual arrangements reduced by reserves for estimated bad debts. The allowance for doubtful accounts is determined based on historical write-off experience, current customer information and other relevant factors, including specific identification of past due accounts. Accounts are charged off against the allowance when Proximity determines they are uncollectible.

Inventories

Inventories consist of finished goods, raw materials, work in progress and purchased inventory. Manufacturing activities revolve around the needs of the rural farmers that Proximity serves. Cost is determined using the average cost method.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at estimated fair value at the date of donation. The cost of additions and betterments are capitalized, while expenditures for maintenance and repairs are charged to expense as incurred.

Proximity capitalized assets with an original cost over $1,000. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities. The provision for depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

Building and improvements	30-50 years
Automobiles, furniture, fixtures and equipment	3-10 years

Leasehold improvements are amortized using the useful life of the asset or the remaining lease term, whichever is shorter.

The estimated service life of the assets for depreciation purposes may be different than their actual economic useful lives. Fully depreciated assets are kept on the books until disposed.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been detailed in the statement of functional expenses and summarized in the statement of activities.

Salaries and related expenses are allocated to program services and supporting services on the basis of the actual time devoted to those activities. Other expenses have been charged directly or allocated using various bases as determined by management.

In certain instances, common expenses are incurred, which support the activities of more than one program. In absence of agreements to the contrary, such expenses are allocated on the basis that appears most reasonable to management.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The organization generally does not conduct its fundraising activities in conjunction with its other activities. If this would happen, such as when the annual report or donor acknowledgements contain requests for contributions, joint costs would have been allocated between fundraising and management and general expenses in accordance with standards for accounting for costs of activities that include fundraising. Additionally, advertising costs are expensed as incurred.

In-kind Contributions

In-kind contributions, including volunteer services and other non-cash contributions, when required by generally accepted accounting principles, are reflected as contributions and expenses at their estimated fair values when received. For the year ended June 30, 2016, no in-kind contributions were received.

Contributions

Contributions primarily include unconditional transfers of cash or other assets. Contributions, whether temporarily restricted, permanently restricted or unrestricted, are recognized as revenue when they are received. Unconditional promises to give are recorded at net realizable value on the date the promise is received.

Products & Services Revenue

Revenues are measured at the fair value of the consideration received or receivable net of sales tax, trade discounts and customer returns.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that 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 revenues and expenses during the reporting period. Significant estimates include determination of accounts receivable allowance and imputed interest rate on non-interest bearing loan. Actual results could differ from those estimates.

3. Concentration of Credit Risk

Proximity Designs has deposits in foreign institutions not covered by U.S. federal deposit in insurance of approximately $1,751,350 at June 30, 2016. Proximity Designs also has deposits in U.S. financial institutions in excess of FDIC insurance limits of approximately $3,014,010 at June 30, 2016. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit on cash and cash equivalents at this time.

4. Loans receivable

Details are as follows:

Product Loan & Other Product installment loan	46,244
Proximity Finance loans	11,811,276
Proximity Finance accrued interest receivable	419,859
Staff Equipment Loan & Employee Advance	93,385
	12,370,764
Less: Provision for Uncollectable Loans	(311,336)
	12,059,428

5. Grants & Pledges Receivable

As of June 30, 2016 grantors to Proximity Designs have made unconditional promises to give totaling $3,039,356. Grants due in more than one year have been recorded at the present value of the estimated cash flows using a discount rate of 8%. Grants are due as follows as of June 30, 2016:

Less than One Year	1,986,300
One to five years	1,053,057
Allowance to discount balance to Present Value	-
	3,039,357

Some additional remarks:

The Norwegian Ministry of Foreign Affairs had made a grant of NOK 3,000,000 to Proximity Designs in order to support The Myanmar Public Policy Initiative. The grant period (1st September 2014 to 31st August 2015) ended during this fiscal year

The Norwegian Ministry of Foreign Affairs had made a grant of NOK 8,000,000 to Proximity Designs in order to support "Climate-Smart Products & Services". The grant period (July 2014 to June 2016) ended during this fiscal year.

In June 2015 The Department for International Development (DFID) made a grant of GBP 2,000,000 to Proximity Designs in order to support The Myanmar Public Policy Initiative. The grant period runs from 1st July 2015 to 30th June 2018.

6. Inventory (Net)

Details are as follows:

Raw materials	85,482
Work in progress	55,943
Irrigation Finished goods	117,809
Manufacturing Mould	4,981
	264,215

7. Fixed assets -Net

Details are as follows:

Cost	
Vehicles	197,700
Furniture and Equipment	206,433
Manufacturing Equipment	9,532
Software	192,186
Exchange rate adjustment	(4,086)
	601,765
Addition	
Vehicle	60,603
Furniture and equipment	32,110
Software	24,868
Building	6,223
	123,804
Less: Accumulated depreciation	
Opening depreciation	(321,815)
For the year depreciation	(108,128)
Exchange rate adjustment	1,016
	(428,927)
Balance as at June 30 2016	**296,642**

8. Current liabilities

Details are as follows:

Short Term Loans Payable	1,519,304
Deferred Revenue	936,788
Accounts Payable/Accrued Expense	953,371
Proximity Health Group Fund	38,225
Credit cards	2,339
Employee Tax and unused leave days	164,309
Other Creditors Due Within One Year	(15,906)
Customer fixed deposit	1,772,400
	5,370,830

Short Term Loans Payable consist of the following at 30 June, 2016:

a) $50,000 note payable to Peery Foundation / Silicon Valley Community Foundation, payable in August 2016, unsecured and with interest rate of one percent per annum.
b) $100,000 note payable to The Herman P. and Sophia Taubman Foundation, payable originally in December 2013 (however rolled over and renewed in May 2016), unsecured, and with interest of one percent per annum.
c) $443,331 loan payable to Kiva Microfunds consists of multiple tranches of capital raised on the Kiva website and these tranches have specific due dates. Kiva operates a web-based business that allows website users throughout the world to connect with organizations that provide small loans to individuals or groups in developing countries. Loan is unsecured and interest free. Loan is made to the Proximity Finance program.
d) $925,973 payable to Cordaid, payable in December 2016, unsecured and with interest rate of ten percent per annum. Loan is made to the Proximity Finance program.

Deferred revenue includes Norfund grant to support technical assistance to Proximity Finance program which has the balance of 51,000 at the year ended 30 June 2016. Balance of $76,203 is the premiums received for a life insurance that is offered as part of our Proximity Finance

program and $809,584 is the deferred grant of LIFT financial inclusion project for Proximity Finance program.

Accounts Payable / Accrued Expense include the following,

Consultant fees for Proximity Research	318,357
Deferred compensation	235,949
Interest expense accrued	129,313
Management Fees	109,450
Other	70,777
Trade Creditor	57,514
Withholding Tax	18,571
Accounting & Audit Fees	13,440
	953,371

9. Non-Current liabilities

The non-current liabilities of $1,644,956 consists of a loan from Norfund. On 25th September 2013 Proximity Designs and Norfund signed a Myanmar Kyat denominated $2,000,000 loan facility agreement. The purpose of the loan is to provide funding to make loans in Myanmar as part of the Proximity Finance program. The Loan became available in two disbursements of the kyat equivalent of USD 1,000,000 and the interest is eight percent per annum. The final maturity date is 30th September 2015. This is an unsecured note. On 10th September 2015 Proximity Designs and Norfund agreed to extend the final maturity date to 31st December 2017 and to change the interest rate to thirteen percent per annum.

10. Retirement Plan

Proximity Designs established a 403(b) (7) retirement plan effective January 1, 2012 for eligible employees. The plan is funded by employees contributing a portion of their salary to the plan. The organization reserves the right to make non-elective discretionary contribution to the plan. A contribution to the plan of $43,200 was made by Proximity to the 2015 plan year.

11. Operating Leases

Proximity leases its offices, manufacturing space and vehicles under various operating lease agreements that renew annually. The lessor and lessee share maintenance responsibilities, depending on the nature of the repair. The lessor is responsible for all taxes and insurance, with the exception of liability insurance, which is the responsibility of the lessee. Rental expense under the leases for the year ended June 30, 2016 was $ 224,871.

12. Subsequent Events

Proximity has evaluated events or transactions that occurred subsequent to the statement of financial position date through November 4, 2016, the date of the accompanying financial statements were available to be issued, for potential recognition or disclosure in the financial statements. Events occurring after that date have been evaluated to determine whether a change in the financial statements would be required.

James D. Taylor
CEO Proximity Designs