

SHIN SHIN EDUCATIONAL FOUNDATION

FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION
AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2014)

TOGETHER WITH
INDEPENDENT AUDITORS' REPORT



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Shin Shin Educational Foundation:

Report on the Financial Statements

We have audited the accompanying financial statements of Shin Shin Educational Foundation (the Foundation), which comprise the statement of 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.

Auditors' 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 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 auditors consider internal control relevant to the Foundation'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 Foundation'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 Shin Shin Educational Foundation 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 on Summarized Comparative Information

We have previously audited the Shin Shin Educational Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 14, 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.

San Francisco, California
_____, 2016

SHIN SHIN EDUCATIONAL FOUNDATION

STATEMENT OF FINANCIAL POSITION -- DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF DECEMBER 31, 2014)

ASSETS

	Unrestricted		Temporarily Restricted	Permanently Restricted	Totals	
	Unrestricted	Board - Designated			2015	2014
CURRENT ASSETS:						
Cash and cash equivalents	\$ 407,128	\$ 32,042	\$ 458,582	\$ -	\$ 897,752	\$ 715,218
Short-term investments	-	732,352	573,965	-	1,306,317	-
Total current assets	407,128	764,394	1,032,547	-	2,204,069	715,218
LONG-TERM INVESTMENTS	-	-	209,124	-	209,124	1,694,648
	<u>\$ 407,128</u>	<u>\$ 764,394</u>	<u>\$ 1,241,671</u>	<u>\$ -</u>	<u>\$ 2,413,193</u>	<u>\$ 2,409,866</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:						
Accrued liabilities	\$ 30,526	\$ -	\$ -	\$ -	\$ 30,526	\$ 44,602
COMMITMENTS AND CONTINGENCIES						
NET ASSETS	376,602	764,394	1,241,671	-	2,382,667	2,365,264
	<u>\$ 407,128</u>	<u>\$ 764,394</u>	<u>\$ 1,241,671</u>	<u>\$ -</u>	<u>\$ 2,413,193</u>	<u>\$ 2,409,866</u>

The accompanying independent auditors' report and notes to financial statements
should be read in conjunction with this statement.

SHIN SHIN EDUCATIONAL FOUNDATION

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014)

	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>	
	<u>Unrestricted</u>	<u>Board - Designated</u>			<u>2015</u>	<u>2014</u>
SUPPORT AND REVENUES:						
Support -						
Individuals and foundations	\$ 49,920	\$ 74,021	\$ 528,711	\$ -	\$ 652,652	\$ 714,539
Total support	49,920	74,021	528,711	-	652,652	714,539
Revenues -						
Interest and dividends	69	-	-	-	69	28,139
Unrealized loss on investments, net	(6,593)	-	-	-	(6,593)	(4,018)
Total revenues (losses)	(6,524)	-	-	-	(6,524)	24,121
NET ASSETS RELEASED FROM RESTRICTIONS:						
Satisfaction of program restrictions	173,727	676,273	(850,000)	-	-	-
Total support and revenues	217,123	750,294	(321,289)	-	646,128	738,660
EXPENSES:						
Program services	66,973	-	494,778	-	561,751	587,747
Management and general	-	-	65,278	-	65,278	30,852
Fundraising	-	-	1,696	-	1,696	9,553
Total expenses	66,973	-	561,752	-	628,725	628,152
CHANGE IN NET ASSETS	150,150	750,294	(883,041)	-	17,403	110,508
NET ASSETS - BEGINNING OF YEAR	226,452	14,100	2,124,712	-	2,365,264	2,254,756
NET ASSETS - END OF YEAR	\$ 376,602	\$ 764,394	\$ 1,241,671	\$ -	\$ 2,382,667	\$ 2,365,264

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SHIN SHIN EDUCATIONAL FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014)

	Program Services	Management and General	Fundraising	Totals	
				2015	2014
School follow-up	\$ 502,371	\$ -	\$ -	\$ 502,371	\$ 557,747
School projects and development	59,380	-	-	59,380	30,000
Promotion	-	18,695	1,696	20,391	9,679
Salaries and wages	-	12,061	-	12,061	9,753
Professional services	-	10,685	-	10,685	10,099
Volunteer costs	-	7,523	-	7,523	-
Information technology	-	6,900	-	6,900	5,500
Foreign currency transaction loss	-	2,437	-	2,437	-
Bank charges	-	1,916	-	1,916	2,212
Printing and copying	-	1,538	-	1,538	-
Annual picnic expense	-	1,161	-	1,161	-
Insurance	-	533	-	533	645
Other	-	1,829	-	1,829	2,517
	<u>\$ 561,751</u>	<u>\$ 65,278</u>	<u>\$ 1,696</u>	<u>\$ 628,725</u>	<u>\$ 628,152</u>

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SHIN SHIN EDUCATIONAL FOUNDATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2015

(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014)

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 17,403	\$ 110,508
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Unrealized loss on investments	6,593	4,018
Changes in assets and liabilities -		
Contributions receivable	-	29,205
Accrued liabilities	<u>(14,076)</u>	<u>10,038</u>
Total adjustments	<u>(7,483)</u>	<u>43,261</u>
Net cash provided by operating activities	<u>9,920</u>	<u>153,769</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	172,614	247,046
Purchase of investments	<u>-</u>	<u>(225,079)</u>
Net cash provided by investing activities	<u>172,614</u>	<u>21,967</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>182,534</u>	<u>175,736</u>
 CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>715,218</u>	<u>539,482</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 897,752</u></u>	<u><u>\$ 715,218</u></u>

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should be read in conjunction with this statement.

SHIN SHIN EDUCATIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015

1. Summary of Significant Accounting Policies

General -- Shin Shin Educational Foundation (the Foundation) is a California not-for-profit organization, formed for the purpose of promoting education for poor and isolated areas in the People's Republic of China through rebuilding of used educational facilities, developing positive studying for children, and fulfilling basic civic duties through constructing libraries and purchasing books.

On January 29, 2013, the Chinese government approved the Shin Shin China Representative Office (Representative Office) to operate as a not-for-profit organization in the People's Republic of China. The Representative Office manages the financial flow of funds, foreign exchange currency translation of wired funds from the United States of America and disbursement of funds to the People's Republic of China in promoting the Foundation's purpose and objectives.

Basis of Presentation -- The Foundation prepares its financial statements in accordance with generally accepted accounting principles promulgated in the United States of America for Not-for-Profit Organizations. The significant accounting and reporting policies used by the Foundation are described subsequently to enhance the usefulness and understandability of the financial statements.

Basis of Accounting -- The financial statement of the Foundation are prepared on the accrual basis of accounting, and includes the accounts of the representative office.

Cash and Cash Equivalents -- Cash and cash equivalents consist of cash in checking and savings accounts and money market funds. The Foundation considers all short-term and highly liquid investments with original maturities of three months or less from the date of acquisition as cash equivalents, unless the investments are held for meeting restrictions of a capital or endowment nature.

Investments -- Investments consists of mutual funds and corporate bonds. Investments in mutual funds are stated at fair values, determined based on quoted market prices. Unrealized gains and losses resulting from market fluctuations are recognized in the period such fluctuations occur. For purposes of determining realized gains or losses, the cost of securities sold was computed based on the weighted average method.

Investments in corporate bonds which are stated at amortized cost, which approximates fair market value. Investments with original maturities of three months or more from dates of acquisition, but less than one year, are classified as short-term. Investments with maturities of more than one year from dates of acquisition are classified as long-term.

The Foundation invests in high quality obligations in order to achieve the maximum yield consistent with safety of principal and maintenance of liquidity. The primary objective is the preservation of capital and the assurance of appropriate liquidity, by limiting default risk and market risk, to meet the needs of the Foundation. The secondary objective is to maximize the current and expected yield on the fund assets, so as to provide additional income for operating purposes. The investment policy also requires management to maintain a reasonable relationship between short-term and long-term investments.

Endowment investments consist of investments purchased with the resources from Board-designated endowments, which are resources set aside by the Board of Directors for an indeterminate period to operate in manner similar to a donor-restricted permanent endowment. Because a board-designated endowment results from an internal designation, it can be spent upon action of the Board of Directors. Endowment investments also include investments purchased with unspent investment income and net gains on these resources. Endowment investments are reported at fair values.

Contributions receivable -- Contributions receivable are recognized when an unconditional promise to give is made by the donor. Accordingly, an unconditional promise to give that extends beyond one year should be discounted to reflect its net present value using risk-free interest rates applicable to the years in which the promises are received.

Support -- Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in either temporarily restricted or permanently restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due unless the contribution is clearly intended to support activities of the current fiscal year or is received with permanent restrictions. Conditional promises, such as matching grants, are not recognized until they become unconditional, that is, until all conditions on which they depend are substantially met.

Revenues -- Interest and dividends are recognized when earned.

Donated Services -- Donated services are recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. There were no donated services for the year ended December 31, 2015.

The volunteer service hours provided during the year ended December 31, 2015, totaled approximately 44,502 hours, which was valued at the California minimum wage rate, at approximately \$400,518. However, since these services do not require specialized skills and did not meet the recognition criteria set forth under the guidance on not-for-profit entities, these were not recorded as support and expenses.

Expense Recognition and Allocation -- The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited.

Tax Status -- The Foundation has been granted tax-exempt status by the Internal Revenue Service under Section 501(c)(3) and by the California Franchise Tax Board under Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income tax has been made in the accompanying financial statements.

Generally accepted accounting principles provide disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and does not believe that the Foundation has any uncertain tax positions that require disclosure or adjustment to the financial statements.

The returns of the Foundation are subject to examination by federal and state taxing authorities, generally for three to four years, respectively, after they are filed.

Concentration of Credit Risk -- Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents and investments greater than \$250,000 with each financial institution. The Foundation periodically reviews its cash and investment policies and believes that any potential accounting loss is minimal.

Estimates Included in the Financial Statements -- The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. On an ongoing basis, the Foundation's management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Foundation's management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

Fair Value of Financial Instruments -- Financial instruments include cash and cash equivalents, investments and accrued liabilities. The carrying value of investments in mutual funds and accrued liabilities approximates fair value due to the short-term nature of these balances. Investments in corporate bonds are stated at amortized cost, which approximates fair value.

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 Foundation's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

New Accounting Pronouncements -- In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements – Going Concern. The guidance requires management, in connection with preparing financial statements, to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable). The amendments in this update are effective for the annual period ending after December 15, 2016. The Foundation will adopt the provisions of ASU No. 2014-15 effective January 1, 2016. The adoption is not expected to have a material effect on the financial statements of the Foundation.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this update revises an entity’s accounting related to the classification and measurement of investments in equity securities and the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The amendments in this update are effective for fiscal years beginning after December 15, 2019.

Subsequent Events -- The Foundation has evaluated subsequent events through _____, 2016, the date the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required.

2. Description of Net Assets

Unrestricted -- This is used to account for resources that are available to support the Foundation’s operations.

Unrestricted – Board-Designated -- This is used to account for unrestricted resources that are designated by the Board of Directors to be invested as

endowment. The Foundation maintains Board-Designated funds whose purpose is to provide long-term support for its programs. The Foundation has \$764,394 of unrestricted board-designated net assets as of December 31, 2015.

Temporarily Restricted Fund -- This is used to account for resources that are restricted by the donor for use for a specific purpose or in a particular future period. 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."

The temporarily restricted net assets consist of the following as of December 31, 2015:

Follow-up fund	\$ 1,056,299
School construction fund	<u>185,372</u>
	<u>\$ 1,241,671</u>

Permanently Restricted -- This is used to account for resources whose use is limited by donor-imposed restrictions that neither expire by being used in accordance with the donor's restriction or by the passage of time. The Foundation had no permanently restricted net assets as of December 31, 2015.

3. **Fair Value Measurement**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Foundation has the ability to access.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in the methodology used at December 31, 2015.

Mutual Funds -- Investments in mutual funds are valued at closing price reported on the active market on which the individual securities are traded.

Corporate Bonds -- Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

The investments measured at fair value as of December 31, 2015, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mutual funds -				
Bond funds	\$ 273,760	\$ -	\$ -	\$ 273,760
Growth	149,136	-	-	149,136
Value	119,548	-	-	119,548
Blend	75,192	-	-	75,192
Venture	58,364	-	-	58,364
Diversified	56,353	-	-	56,353
Corporate bonds	<u>-</u>	<u>783,088</u>	<u>-</u>	<u>783,088</u>
 Total investments	 <u>732,353</u>	 <u>783,088</u>	 <u>-</u>	 <u>1,515,441</u>
 Assets at fair value	 <u>\$ 732,353</u>	 <u>\$ 783,088</u>	 <u>\$ -</u>	 <u>\$ 1,515,441</u>

There were no significant transfers between the levels during the year. The Foundation's policy is to recognize transfers in and out of the levels at the end of the year; interim changes in the availability of fair value inputs are not recognized. At December 31, 2015, the Foundation does not have any investments measured using Level 3 inputs.

The composition of the investment return during the year ended December 31, 2015, was as follows:

Interest and dividends	\$ 69
Unrealized loss on investments, net	<u>(6,593)</u>
	<u>\$ (6,524)</u>

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FOR DISCUSSION PURPOSES ONLY

4. Endowments

The Foundation established the board-designated endowment fund to support the mission of the Foundation by providing a reliable source of funds for current and future use. The endowment shall be used to support the annual board approved school related programs.

As required by U.S. Generally Accepted Accounting Principles, net assets associated with endowment investments are classified and reported based on the existence or absence of donor-imposed restrictions.

Investment and Spending Policies – The Foundation has an investment policy specific to its endowment investments, which is monitored by the Endowment Committee of its Board of Directors. The investment policy describes the objective for the fund and sets ranges for asset allocation. The objective of the endowment investments is to earn the highest possible total return consistent with a level of risk suitable for these assets. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the endowment investments assets, to provide necessary capital to fund the spending policy, and to cover the costs of managing the endowment investment assets. The portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are invested for the long-term, and higher short term volatility in these assets is to be expected and accepted.

The following is a summary of the asset allocation guidelines, with allowable ranges for each asset type:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Cash	0%	15%	8%
Fixed income	20%	50%	35%
Equity	35%	75%	57%

The following is a reconciliation of the activity in the endowment funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance – January 1, 2015	\$ 14,100	\$ -	\$ -	\$ 14,100
Program activities -				
Donations received	74,021	-	-	74,021
Transfer from temporarily restricted	<u>676,273</u>	<u>-</u>	<u>-</u>	<u>676,273</u>
Balance – December 31, 2015	<u>\$ 764,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 764,394</u>

The following is a summary of the endowment funds:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Board-Designated	<u>\$ 764,394</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 764,394</u>