

SHIN SHIN EDUCATIONAL FOUNDATION
(A Nonprofit Organization)

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

December 31, 2018

(WITH SUMMARIZED FINANCIAL INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2017)

Non-Profit

CONTENTS

Page number

FINANCIAL STATEMENTS

Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7-14

Wang Accountancy Corp.

28 North First Street, Suite 900
San Jose, CA 95113
Tel: 408-998-1688 Fax: 408-998-1689

INDEPENDENT AUDITOR'S 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 comprised of the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, 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 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 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 Shin Shin Educational Foundation as of December 31, 2018, 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

The financial statements for the year ended December 31, 2017 were audited by a predecessor auditor who expressed an unmodified opinion on those statements dated March 26, 2018. In our opinion the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent in all material respects, with the audited financial statements from which it has been derived.


Wang Accountancy Corp.
San Jose, CA
May 13, 2019

SHIN SHIN EDUCATIONAL FOUNDATION
Statement of Financial Position
December 31, 2018
(With summarized financial information as of December 31, 2017)

ASSETS

	Unrestricted		Temporarily Restricted	Totals	
	Unrestricted	Board - Designated		2018	2017
Current assets:					
Cash and cash equivalents	\$ 217,684	\$ 1,584,297	\$ 1,594,076	\$ 3,396,057	\$ 2,781,017
Total current assets	217,684	1,584,297	1,594,076	3,396,057	2,781,017
Total assets	<u>\$ 217,684</u>	<u>\$ 1,584,297</u>	<u>\$ 1,594,076</u>	<u>\$ 3,396,057</u>	<u>\$ 2,781,017</u>

LIABILITIES AND NET ASSETS

Current liabilities:					
Accrued liabilities	\$ 22,128	\$ -	\$ 1,957	\$ 24,085	\$ 83,511
Total current liabilities	22,128	-	1,957	24,085	83,511
Total liabilities	22,128	-	1,957	24,085	83,511
Net assets	195,556	1,584,297	1,592,119	3,371,972	2,697,506
Total liabilities and net assets	<u>\$ 217,684</u>	<u>\$ 1,584,297</u>	<u>\$ 1,594,076</u>	<u>\$ 3,396,057</u>	<u>\$ 2,781,017</u>

See independent auditor's report and notes to financial statements

SHIN SHIN EDUCATIONAL FOUNDATION
Statement of Activities
For the year ended December 31, 2018
(With summarized information for the year ended December 31, 2017)

	Unrestricted			Totals	
	Unrestricted	Board - Designated	Temporarily Restricted	2018	2017
SUPPORT AND REVENUES					
Support					
Individuals and foundations	\$ 45,350	\$ 360,520	\$ 901,453	\$ 1,307,323	\$ 811,125
Total support	45,350	360,520	901,453	1,307,323	811,125
Revenues					
Unrealized and realized gain on investments, net	-	(137,924)	-	(137,924)	99,689
Interest and dividends	12,307	25,669	-	37,976	39,729
Total revenues	12,307	(112,255)	-	(99,948)	139,418
NET ASSETS RELEASED FROM RESTRICTIONS					
Satisfaction of program restrictions	38,583	(8,468)	(30,115)	-	-
Total support and revenues	96,240	239,797	871,338	1,207,375	950,543
EXPENSES					
Program services					
Educational programs	-	-	377,901	377,901	433,949
School constructions	-	-	51,466	51,466	59,860
Total program services	-	-	429,367	429,367	493,809
Management and general	82,819	-	-	82,819	72,392
Fundraising	20,722	-	-	20,722	29,483
Total expenses	103,541	-	429,367	532,908	595,684
CHANGE IN NET ASSETS	(7,301)	239,797	441,971	674,467	354,859
NET ASSETS - BEGINNING OF THE YEAR	215,164	1,332,193	1,150,149	2,697,506	2,342,647
NET ASSETS - END OF THE YEAR	\$ 207,863	\$ 1,571,990	\$ 1,592,120	\$ 3,371,973	\$ 2,697,506

See independent auditor's report and notes to financial statements

SHIN SHIN EDUCATIONAL FOUNDATION
Statement of Functional Expenses
For the year ended December 31, 2018
(With summarized information for the year ended December 31, 2017)

	Program Services					Totals	
	Educational Programs	School Construction	Totals	Management and General	Fundraising	2018	2017
School education follow-up	\$ 373,862	\$ -	\$ 373,862	\$ -	\$ -	\$ 373,862	\$ 424,288
School projects and development	-	51,466	51,466	-	-	51,466	59,860
Annual donor event expense	-	-	-	-	20,722	20,722	29,483
Salaries and wages	-	-	-	25,620	-	25,620	20,499
Promotion	-	-	-	8,960	-	8,960	14,917
Professional services	-	-	-	22,987	-	22,987	12,405
Youth group	4,039	-	4,039	-	-	4,039	9,661
Insurance	-	-	-	8,213	-	8,213	8,213
Volunteer costs	-	-	-	4,153	-	4,153	7,679
Occupancy	-	-	-	-	-	-	5,264
Printing and copying	-	-	-	1,431	-	1,431	3,754
Bank charges	-	-	-	13,869	-	13,869	2,653
Administrative	-	-	-	900	-	900	-
Meeting	-	-	-	1,288	-	1,288	985
Supplies	-	-	-	158	-	158	592
Postage and delivery	-	-	-	296	-	296	-
IT expense	-	-	-	1,684	-	1,684	-
Foreign currency transaction (gain) loss	-	-	-	(7,970)	-	(7,970)	(4,569)
Other	-	-	-	1,230	-	1,230	-
	<u>\$ 377,901</u>	<u>\$ 51,466</u>	<u>\$ 429,367</u>	<u>\$ 82,819</u>	<u>\$ 20,722</u>	<u>\$ 532,908</u>	<u>\$ 595,684</u>

See independent auditor's report and notes to financial statements

SHIN SHIN EDUCATIONAL FOUNDATION
Statement of Cash Flows
For the year ended December 31, 2018
(With summarized information for the year ended December 31, 2017)

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2018</u>	<u>2017</u>
Change in net assets	<u>\$ 674,466</u>	<u>\$ 354,859</u>
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Unrealized and realized gain on investments	137,924	(99,689)
Changes in assets and liabilities		
Accrued liabilities	<u>(49,926)</u>	<u>74,011</u>
Total adjustments	<u>87,998</u>	<u>(25,678)</u>
Net Cash provided by (used in) operating activities	<u>762,464</u>	<u>329,181</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	<u>(147,424)</u>	<u>1,271,914</u>
Net Cash provided by (used in) investing activities	<u>(147,424)</u>	<u>1,271,914</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	615,040	1,601,095
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	<u>2,781,017</u>	<u>1,179,922</u>
CASH AND CASH EQUIVALENTS - END OF THE YEAR	<u><u>\$ 3,396,057</u></u>	<u><u>\$ 2,781,017</u></u>

See independent auditor's report and notes to financial statements

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

1. Nature of Organization and Programs

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.

The Foundation has two major types programs which are described below:

- **School Construction** – The Foundation aims to provide funds to rebuild, refurbish or create a new primary school. Since the establishment of the Foundation in 1997, 358 Shin Shin schools and reading rooms in 26 provinces and autonomous regions have been completed and constructed.
- **Educational Programs** – The Foundation believes that every child should have a good education and learning environment. The Foundation hopes to expand the teacher training, book plans, e-learning and other projects, so that all the children have access to a wide range of books, the use of computers and the internet and every teacher gets professional training to improve teaching skills.

2. Summary of Significant Accounting Policies

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 understandabilities of the financial statements.

Basis of Accounting – The financial statements of the Foundation are prepared on the accrual basis of accounting and include the accounts of the representative office.

Cash and Cash Equivalents – Cash and cash equivalents consist of cash on hand and in bank accounts. 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.

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

Investments – Investments consist 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 approximate 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 – Contribution 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

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

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.

Revenue – 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, 2018.

The volunteer service hours provided during the year ended December 31, 2018, totaled approximately 55,600 hours, which was valued at the California minimum wage rate, at approximately \$611,600. 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 cost 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.

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

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

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, 2017 from which the summarized information was derived.

New Accounting Pronouncements – In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 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. The Foundation is currently evaluating the effects of this update.

In August 2016, FASB issued ASU No. 2016-14, Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities. The amendments in the ASU made several improvements to current reporting requirements that address net asset classes, investment return, expenses, liquidity and availability of resources and presentation of operating cash flows. The ASU is effective for financial statements beginning after December 15, 2017. The Foundation is currently evaluating the provisions of this ASU.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (ASU No. 2016-15), which addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No.

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

2016-15 is effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Foundation is currently evaluating the provisions of this ASU.

Although there are several other new accounting pronouncements issued or proposed by the FASB, which the Foundation will adopt, as applicable, the Foundation does not believe any of these accounting pronouncements will have a material impact on its financial position or results of operation.

Subsequent Events – The Foundation has evaluated subsequent events through May 14, 2019, 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.

3. 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 \$1,584,297 of unrestricted Board-Designated net assets as of December 31, 2018.

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, 2018:

Follow-up fund					\$ 1,245,779
School construction fund					346,340
					<u>\$ 1,592,119</u>

Permanently Restricted – This is used to account for resources whose use is limited by donor-imposed restrictions that expire neither by being used in accordance with the donor's restriction nor by the passage of time. The Foundation had no permanently restricted net assets as of December 31, 2018.

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

4. 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.

Mutual Funds – These investments are valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded and are classified within Level 1 of the valuation hierarchy.

Corporate Bonds – Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities and are classified within Level 2 of the valuation hierarchy. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

5. Concentration of Risk

The majority of the Foundation's revenues are the donations from individuals and foundations. As such, the Foundation's ability to generate resources is dependent upon the pledges received.

Financial instruments, which potentially subject the Foundation to concentration of credit risk, consist principally of cash and cash equivalents and investments greater than \$250,000 with each financial institution. The Foundation's investments are subject to various risks, such as interest rate, credit and overall market volatility risks. Further, because of the significance of the investments to the Foundation's financial position and the level of risk inherent in most investments, it is reasonably possible that changes in the values of these investments could occur in the near term and such changes could materially affect the amounts reported in the financial statements. Management periodically reviews its cash and investments policies and believes that any potential loss is not material to the financial statements.

6. 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.

SHIN SHIN EDUCATIONAL FOUNDATION

Notes to Financial Statements

December 31, 2018

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

Asset Class	Minimum	Maximum	Preferred
Cash	0%	15%	8%
Fixed Income	20%	50%	35%
Equities	35%	75%	57%

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance on January 1, 2018	\$ 1,332,193	\$ -	\$ -	\$ 1,332,193
Program activities				
Donations received	360,520	-	-	360,520
Investment income	(99,948)	-	-	(99,948)
Transfer from (to) temporarily restricted	(8,468)	-	-	(8,468)
Balance on December 31, 2018	<u>\$ 1,584,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,584,297</u>

The following is a summary of the endowment funds:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Board-Designated	<u>\$ 1,584,297</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,584,297</u>