

CAROLINA FOR KIBERA, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2016

CAROLINA FOR KIBERA, INC.

TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7



3200 CROASDAILE DRIVE
SUITE 501
DURHAM, NC 27705

OFFICE: (919) 383-7026
FAX: (919) 382-0673

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Carolina for Kibera, Inc.

We have audited the accompanying financial statements of Carolina for Kibera, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements.

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Carolina for Kibera, Inc. as of June 30, 2016, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Durham, NC
February 21, 2017

CAROLINA FOR KIBERA, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

CURRENT ASSETS

Cash	\$ 1,266,341
Donated assets for transfer	27,450
Prepaid Expenses	<u>7,500</u>

TOTAL CURRENT ASSETS 1,301,291

INVESTMENTS 1,343,639

FIXED ASSETS, net 2,631

\$2,647,561

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 19,560
Accrued payroll taxes and withholdings	<u>1,187</u>

TOTAL CURRENT LIABILITIES 20,747

NET ASSETS

Unrestricted	1,093,971
Temporarily restricted	360,843
Permanently restricted	<u>1,172,000</u>

2,626,814

\$2,647,561

See independent auditor's report and notes to financial statements.

CAROLINA FOR KIBERA, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Contribution income	\$ 500,464		\$ 16,817	\$ 517,281
Donated services	40,304			40,304
Interest income	1,055			1,055
Investment return - payout	70,024			70,024
Realized (loss) on endowment	(70,154)			(70,154)
Unrealized (loss) on endowment	(28,817)			(28,817)
Net assets released from restrictions	114,309	\$ (114,309)		-
	<u>627,185</u>	<u>(114,309)</u>	<u>16,817</u>	<u>529,693</u>
EXPENSES				
Program services	684,053			684,053
Supporting services				
Management and general	96,830			96,830
Fund-raising	68,240			68,240
	<u>849,123</u>			<u>849,123</u>
CHANGE IN NET ASSETS	(221,938)	(114,309)	16,817	(319,430)
NET ASSETS - beginning of year	<u>1,315,909</u>	<u>475,152</u>	<u>1,155,183</u>	<u>2,946,244</u>
NET ASSETS - end of year	<u><u>\$1,093,971</u></u>	<u><u>\$ 360,843</u></u>	<u><u>\$1,172,000</u></u>	<u><u>\$2,626,814</u></u>

See independent auditor's report and notes to financial statements.

CAROLINA FOR KIBERA, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	Supporting Services			Total Expense
	Program Services	Management and General	Fund Raising	
Salaries and related expenses				
Salaries	\$ 51,443	\$17,593	\$31,235	\$100,271
Benefits	5,052	1,443	722	7,217
Payroll taxes	3,107	1,921	2,779	7,807
TOTAL SALARIES AND RELATED EXPENSES	59,602	20,957	34,736	115,295
Accounting fees		12,246		12,246
Annual report	2,821		2,820	5,641
Bank fees		6,137		6,137
Computer expenses		973		973
Conferences and meetings	2,337	2,337		4,674
Database			99	99
Food	596	476	119	1,191
Fundraising and events		52	473	525
Grants to Kenya	541,799			541,799
Grants to others	17,550			17,550
Insurance	1,855	1,855		3,710
Investment fees		5,177		5,177
Legal fees		35,213		35,213
License and registrations		1,302		1,302
Miscellaneous	61			61
Outside contract services	10,675		16,012	26,687
Payroll fees	514	64	64	642
Postage and shipping	2,059	1,029	1,029	4,117
Printing	5,370	1,790	1,790	8,950
Recruitment and development	180	180		360
Rent, parking and utilities	882	881		1,763
Sports equipment	4,592			4,592
Supplies		3,810	262	4,072
Telephone and internet	1,020	291	146	1,457
Travel	28,162		10,175	38,337
Website	2,575	2,060	515	5,150
TOTAL EXPENSES BEFORE DEPRECIATION	682,650	96,830	68,240	847,720
Depreciation	1,403			1,403
	<u>\$684,053</u>	<u>\$96,830</u>	<u>\$68,240</u>	<u>\$849,123</u>

See independent auditor's report and notes to financial statements.

CAROLINA FOR KIBERA, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (319,430)
Adjustments to reconcile decrease in net assets to net cash provided for operating activities:	
Depreciation	1,403
Unrealized loss on endowment	28,817
(Increase) decrease in:	
Grant receivable	198,257
Increase (decrease) in:	
Accounts payable	16,709
Accrued payroll taxes and withholding	<u>(1,121)</u>
NET CASH USED BY OPERATING ACTIVITIES	(75,365)
CASH FLOWS FROM INVESTING ACTIVITIES	
Payout from endowment	70,024
Purchase of marketable securities	(16,817)
Loss on endowment	5,307
Purchase of property and equipment	<u>(1,610)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	56,904
NET DECREASE IN CASH	(18,461)
CASH- beginning of year	<u>1,284,802</u>
CASH- end of year	<u><u>\$1,266,341</u></u>

See independent auditor's report and notes to financial statements.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Carolina for Kibera, Inc. is a nonprofit corporation organized under the laws of the State of North Carolina on April 23, 2001. The Organization's purpose is to serve as a granting organization to CFK-Kenya, a non-governmental organization in Kenya. CFK-Kenya promotes youth leadership and ethnic and gender cooperation in Kibera, a slum area in Nairobi, through youth sports, young women's empowerment, and community development. The Organization also works to improve basic healthcare, sanitation, and education in Kibera. The Organization is supported through public contributions.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles; consequently, revenues are recognized when earned and expenses are recognized when incurred.

Investments

The Organization is required by FASB ASC 958-302 "Accounting for Certain Investments Held by Not-for-Profit Organizations" to report marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statement of Financial Position. Unrealized gains and loss are included in the change in net assets.

The fair values of long-term investments are based on quoted market prices for those or similar investments. Investments are held and managed by the University of North Carolina at Chapel Hill.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities that are not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2013, 2014, and 2015 are subject to examination by the IRS, generally for three years after they were filed.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash and cash equivalents include cash and highly liquid short-term investments, with an original maturity of three months or less.

Contributions

In accordance with FASB ASC 958-605, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and Equipment

All acquisitions of property and equipment in excess of \$500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which are 5-10 years for equipment, vehicles and furniture.

Net Assets

The Organization reports its net assets, revenues, expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

Functional Allocation

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization adopted the provisions of FASB ASC 820-10, “Fair Value Measurements and Disclosures” (formerly SFAS 157), for fair value measurements. FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. FASB ASC 820 establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC 820 establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: One or more significant inputs or significant value drivers are unobservable or based on market assumptions.

The Organization uses only Level 1 inputs in its fair value measurement.

Subsequent Events

Subsequent events have been evaluated through February 21, 2017, the date the financial statements were available for issuance.

NOTE B – CONCENTRATION OF CREDIT RISK ARISING FROM CASH DEPOSITS IN EXCESS OF INSURED LIMITS

The Organization maintains its cash balances at financial institutions located in Chapel Hill, North Carolina. Accounts at two of these financial institutions are insured by the Federal Deposit Insurance Company up to \$250,000. At June 30, 2016, the Organization’s uninsured cash balances total \$738,382. The organization has not experienced any losses with these accounts.

NOTE C – RELATED ENTITIES

The Organization is affiliated with the University of North Carolina at Chapel Hill. Under the agreement the University will provide staffing assistance, office space, investment management services and daily accounting services at no charge. Carolina for Kibera, Inc. must maintain its state nonprofit and tax exempt status, conduct activities that are in line with the mission of the University and follow the University’s accounting policies which include having an annual audit performed.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE D – FIXED ASSETS

Fixed assets at June 30, 2016 consisted of the following:

Equipment	\$10,585
Less accumulated depreciation	<u>(7,954)</u>
	<u>\$ 2,631</u>

NOTE E – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are restricted by grant agreements or individual donors at the time the donation is made and are available for supporting CFK-Kenya's Binti Pamoja – Empowering Adolescent Girls in Kibera Slum and related capital expenditures, and Community Health in Kibera: Child Survival & Maternal Health programs in the amount of \$360,843 as of June 30, 2016.

Permanently restricted net assets consist of donor restricted funds that are to be held indefinitely, the earnings on the donor restricted funds are expendable for general operating purposes in the future. Permanently restricted net assets are available for the Endowment account in the amount of \$1,172,000 as of June 30, 2016.

NOTE F – DONATED MATERIALS AND SERVICES

For the year ending June 30, 2016 donated professional services were recognized and recorded by the Organization as contributions in the amount of \$35,213. In accordance with FASB ASC Topic 958-605, the donated services for legal fees were performed by professionals with skills that otherwise would have been purchased by the Organization.

The Organization has received approximately 1548 volunteer hours for the year ending June 30, 2016. No amounts have been reflected in the financial statements for these hours where no objective basis is available to measure the value of such services.

NOTE G – UNCONDITIONAL PROMISE TO GIVE

The Organization receives grant awards which are recorded as grants receivable in the year the grant is awarded. The grants are awarded to the Organization to fund programs and services which are in accordance with the Organization's mission. Some of these grant awards consist of multi-year periods.

The Organization recognizes grants as contributions when the grants are awarded and are, in substance, unconditional. There were no grants receivable at June 30, 2016.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE H - INVESTMENTS

Investments are carried on the books at fair value as follows:

	<u>Cost</u>	<u>Market</u>	<u>Carry Value</u>
Pooled endowment fund	\$1,374,311	\$1,343,639	\$1,343,639

NOTE I – ENDOWMENT ACCOUNT

Donor-designated Endowments (UPMIFA state)

The Organization’s endowment consists of a pooled endowment account established for specific purposes as restricted by the donor. Its endowment balance includes only donor-restricted endowments. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Carolina for Kibera, Inc. requires donor-restricted endowment funds to include the original value of gifts donated to the endowment account that are restricted by the donor. They consider earnings on the endowment account to be unrestricted.

Management has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets. In accordance with SPMIFA,

the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization’s investment policies.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE I – ENDOWMENT ACCOUNT (Continued)

Investment Return Objectives, Risk Parameters and Strategies

Carolina For Kibera, Inc. has elected to invest in The University of North Carolina at Chapel Hill Foundation Investment Fund, Inc. (“Chapel Hill Investment Fund” or “CHIF”), a commingled investment vehicle established for The University of North Carolina at Chapel Hill Endowment Fund and other foundations and endowments affiliated with The University of North Carolina at Chapel Hill. By electing to invest in the Chapel Hill Investment Fund, the Organization has agreed to follow the investment policies and procedures set forth by the CHIF. The Chapel Hill Investment Fund invests its assets in the UNC Investment Fund, LLC (UNCIF). UNCIF employs a multi-asset class, multi-strategy investment approach to provide broad diversification, consistent returns and growth in spending and market value. The four primary investment goals and objectives of the UNCIF are:

1. To preserve the real (net of inflation) purchasing power of the UNCIF while providing a predictable, stable and constant (in real terms) stream of earnings.
2. To earn an annualized real total rate of return of at least 5.5 percent per year, net of all fees and expenses, over the long term.
3. To earn an annual rate of return, net of all fees, that exceeds the Strategic Investment Policy Portfolio (“SIPP”).
4. To earn a rate of return that places the Fund among the top third of university endowment Funds as ranked by the National Association of College and University Business Officers (“NACUBO”).

The Board of Directors of Carolina For Kibera, Inc. requires donor-restricted endowment funds to include the original value of gifts donated to the endowment account that are restricted by the donor. They consider earnings on the endowment account to be unrestricted.

Additionally, the Organization has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while seeking to maintain the purchasing power of the endowment assets over the long-term.

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE I – ENDOWMENT ACCOUNT (Continued)

Spending Policies

Each year, the organization may take a distribution of at least 4% to a maximum distribution of 7% of the Fund’s estimated market value at the Fund’s fiscal year end. The investment return on the endowment account is treated as unrestricted income and the payout from the endowment account is received at the end of the Fund’s fiscal year from the unrestricted portion.

Endowment Net Asset Composition by Fund Type as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Total
Donor-restricted endowment funds	\$(26,071)	\$	\$1,172,000	\$1,145,929
Board-designated endowment funds	<u>197,910</u>	<u> </u>	<u> </u>	<u>197,910</u>
Endowment net assets, end of period	<u>\$171,639</u>	<u>\$</u>	<u>\$1,172,000</u>	<u>\$1,343,639</u>

Change in endowment net assets as of June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Endowment Total
Endowment net assets, beginning of period	\$275,787	\$	\$1,155,183	\$1,430,940
Contributions			16,817	16,817
Payout received	70,024			70,024
Payout - transfer out	(70,024)			(70,024)
Realized (loss)	(70,154)			(70,154)
Investment fees	(5,177)			(5,177)
Unrealized (loss)	<u>(28,817)</u>	<u> </u>	<u> </u>	<u>(28,817)</u>
Endowment net assets, end of period	<u>\$171,639</u>	<u>\$</u>	<u>\$1,172,000</u>	<u>\$1,343,639</u>

CAROLINA FOR KIBERA, INC.
NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

NOTE I – ENDOWMENT ACCOUNT (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with the permanently restricted portion of the endowment funds may fall below the donor contributed portion of the endowment. As of June 30, 2016, the permanently restricted portion of the donor-restricted endowment fund was deficient in the amount of \$26,071.

NOTE J – SUBSEQUENT EVENTS

Investment account statements are prepared and provided to Carolina For Kibera, Inc. at the end of each month for the previous months closing balance. As of December 31, 2016, the latest period reported on, the fair market value of the endowment account was \$1,383,148. There has been appreciation of \$39,510 in fair market value for the endowment account since June 30, 2016.