

## **FINANCIAL STATEMENTS**



Shining Hope  
for Communities

**FOR THE YEARS ENDED  
DECEMBER 31, 2018 AND 2017**

**SHINING HOPE FOR COMMUNITIES, INC.**

**CONTENTS**

	<b>PAGE NO.</b>
INDEPENDENT AUDITOR'S REPORT	2
EXHIBIT A - Statements of Financial Position, as of December 31, 2018 and 2017	3
EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2018 and 2017	4 - 5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2018	6 - 7
EXHIBIT D - Statement of Functional Expenses, for the Year Ended December 31, 2017	8 - 9
EXHIBIT E - Statements of Cash Flows, for the Years Ended December 31, 2018 and 2017	10
NOTES TO FINANCIAL STATEMENTS	11 - 19

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Shining Hope for Communities, Inc.  
New York, New York

We have audited the accompanying financial statements of Shining Hope for Communities, Inc. (SHOFCO), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 SHOFCO as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



July 20, 2019

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## SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2018 AND 2017

<b>ASSETS</b>		<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	3,803,083	\$ 2,047,488
Investments		5,664,301	6,091,852
Grants and other receivables		1,065,493	415,377
Prepaid expenses and other assets		<u>22,070</u>	<u>65,027</u>
Total current assets		<u>10,554,947</u>	<u>8,619,744</u>
<b>PROPERTY AND EQUIPMENT</b>			
Land		332,785	338,596
Buildings and improvements		2,046,785	1,192,094
Program equipment		646,492	540,376
Water supply infrastructure		1,094,047	611,452
Software		60,593	33,747
Vehicles		<u>99,903</u>	<u>59,955</u>
		4,280,605	2,776,220
Less: Accumulated depreciation and amortization		<u>(680,644)</u>	<u>(490,832)</u>
Net property and equipment		<u>3,599,961</u>	<u>2,285,388</u>
<b>NONCURRENT ASSETS</b>			
Security deposits		26,315	9,367
Construction in progress		89,532	980,930
Intangible assets		16,931	-
Grants and other receivables, net of current portion		<u>-</u>	<u>100,000</u>
Total noncurrent assets		<u>132,778</u>	<u>1,090,297</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 14,287,686</u></b>	<b><u>\$ 11,995,429</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$	<u>346,316</u>	\$ <u>245,029</u>
<b>NET ASSETS</b>			
Without donor restrictions		12,064,145	8,617,206
With donor restrictions		<u>1,877,225</u>	<u>3,133,194</u>
Total net assets		<u>13,941,370</u>	<u>11,750,400</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 14,287,686</u></b>	<b><u>\$ 11,995,429</u></b>

See accompanying notes to financial statements.

**SHINING HOPE FOR COMMUNITIES, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

	<b>2018</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Foundation grants	\$ 3,290,825	\$ 3,162,657	\$ 6,453,482
Individual contributions	1,521,963	804,205	2,326,168
Corporate contributions	31,390	17,475	48,865
Project income	520	51,218	51,738
In-kind contributions	120,053	-	120,053
Investment income	126,659	-	126,659
Net assets released from donor restrictions	<u>5,291,524</u>	<u>(5,291,524)</u>	<u>-</u>
Total support and revenue	<u>10,382,934</u>	<u>(1,255,969)</u>	<u>9,126,965</u>
<b>EXPENSES</b>			
Program Services:			
Health	1,579,965	-	1,579,965
WASH	279,121	-	279,121
Essential Services	546,783	-	546,783
Sustainable Livelihoods	362,737	-	362,737
Girls Leadership and Education	1,295,792	-	1,295,792
SUN	618,442	-	618,442
SACCO	40,072	-	40,072
Kenya Program Operations	<u>937,275</u>	<u>-</u>	<u>937,275</u>
Total program services	<u>5,660,187</u>	<u>-</u>	<u>5,660,187</u>
Supporting Services:			
General and Administrative	573,186	-	573,186
Development	<u>702,622</u>	<u>-</u>	<u>702,622</u>
Total supporting services	<u>1,275,808</u>	<u>-</u>	<u>1,275,808</u>
Total expenses	<u>6,935,995</u>	<u>-</u>	<u>6,935,995</u>
Changes in net assets	3,446,939	(1,255,969)	2,190,970
Net assets at beginning of year	<u>8,617,206</u>	<u>3,133,194</u>	<u>11,750,400</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 12,064,145</u></b>	<b><u>\$ 1,877,225</u></b>	<b><u>\$ 13,941,370</u></b>

<b>2017</b>		
<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
\$ 1,890,795	\$ 2,517,142	\$ 4,407,937
1,940,360	755,413	2,695,773
43,839	233,696	277,535
7,696	34,056	41,752
51,473	32,783	84,256
56,901	-	56,901
<u>3,416,430</u>	<u>(3,416,430)</u>	<u>-</u>
<u>7,407,494</u>	<u>156,660</u>	<u>7,564,154</u>
1,426,974	-	1,426,974
345,594	-	345,594
735,223	-	735,223
83,544	-	83,544
1,126,686	-	1,126,686
290,510	-	290,510
2,097	-	2,097
<u>939,415</u>	<u>-</u>	<u>939,415</u>
<u>4,950,043</u>	<u>-</u>	<u>4,950,043</u>
246,793	-	246,793
<u>653,505</u>	<u>-</u>	<u>653,505</u>
<u>900,298</u>	<u>-</u>	<u>900,298</u>
<u>5,850,341</u>	<u>-</u>	<u>5,850,341</u>
1,557,153	156,660	1,713,813
<u>7,060,053</u>	<u>2,976,534</u>	<u>10,036,587</u>
<b><u>\$ 8,617,206</u></b>	<b><u>\$ 3,133,194</u></b>	<b><u>\$ 11,750,400</u></b>

See accompanying notes to financial statements.

**SHINING HOPE FOR COMMUNITIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

	Program Services					SUN
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	
Salaries with benefits and taxes	\$ 782,089	\$ 101,301	\$ 341,149	\$ 231,566	\$ 612,880	\$ 230,682
Professional fees	26,498	3,549	10,106	14,899	75,736	3,549
Repairs and maintenance	51,266	11,293	19,747	2,928	31,125	5,960
Rent	14,434	2,035	6,554	3,026	14,145	7,226
Program supplies	69,775	12,371	56,947	13,517	95,281	45,108
Medical supplies	357,171	-	169	-	5,641	421
Program food	21,915	2,543	34,158	16,165	84,904	84,448
Staff travel	8,781	1,590	8,731	4,542	16,157	26,991
Service fees	42,872	9,151	11,241	37,544	58,168	12,738
Classroom supplies	-	-	-	-	40,671	-
Bank charges	20	-	2	1,742	21	-
Events and training	-	-	566	2,383	16,614	2,669
Transportation	14,976	1,215	12,221	15,751	47,437	15,446
Marketing and promotions	619	-	-	-	-	-
Printing	1,861	-	70	169	4,952	11,775
Telecom and communications	9,146	1,128	10,748	3,156	7,248	6,190
Program equipment and rentals	85,143	562	13,111	9,724	14,924	19,905
Utilities	21,021	26,845	11,355	2,894	12,953	6,293
Uniforms	-	-	1,321	805	19,489	11,307
Miscellaneous	300	6,281	661	1,442	7,320	2,379
In-kind contributions	-	-	-	-	-	-
Scholarships	-	-	-	-	40,888	120,735
Loss on disposal of property and equipment	4,684	4,253	(1,780)	-	44,009	-
Total expense before depreciation and amortization	1,512,571	184,117	537,077	362,253	1,250,563	613,822
Depreciation and amortization	67,394	95,004	9,706	484	45,229	4,620
<b>TOTAL</b>	<b>\$ 1,579,965</b>	<b>\$ 279,121</b>	<b>\$ 546,783</b>	<b>\$ 362,737</b>	<b>\$ 1,295,792</b>	<b>\$ 618,442</b>

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services (Continued)			Supporting Services			Total Expenses
	SACCO	Kenya Program Operations	Total Program Services	General and Administrative	Development	Total Supporting Services	
Salaries with benefits and taxes	\$ 25,771	\$ 601,077	\$ 2,926,515	\$ 275,456	\$ 378,274	\$ 653,730	\$ 3,580,245
Professional fees	117	107,050	241,504	157,054	208,560	365,614	607,118
Repairs and maintenance	855	16,809	139,983	756	65	821	140,804
Rent	399	10,137	57,956	36,523	73	36,596	94,552
Program supplies	4,207	23,416	320,622	7,558	111	7,669	328,291
Medical supplies	-	-	363,402	-	-	-	363,402
Program food	1,051	13,780	258,964	652	79	731	259,695
Staff travel	535	14,745	82,072	14,891	28,218	43,109	125,181
Service fees	3,522	14,699	189,935	11,829	43,731	55,560	245,495
Classroom supplies	-	-	40,671	-	-	-	40,671
Bank charges	-	18,893	20,678	1,869	35	1,904	22,582
Events and training	120	378	22,730	4,277	5,988	10,265	32,995
Transportation	478	5,710	113,234	1,919	40	1,959	115,193
Marketing and promotions	-	438	1,057	1,709	19,016	20,725	21,782
Printing	3	2,294	21,124	-	-	-	21,124
Telecom and communications	1,125	6,960	45,701	4,817	30	4,847	50,548
Program equipment and rentals	745	44,638	188,752	9,557	10,985	20,542	209,294
Utilities	703	18,279	100,343	1,035	130	1,165	101,508
Uniforms	-	1,550	34,472	-	-	-	34,472
Miscellaneous	-	1,847	20,230	1,929	6,812	8,741	28,971
In-kind contributions	-	-	-	38,700	-	38,700	38,700
Scholarships	-	-	161,623	-	-	-	161,623
Loss on disposal of property and equipment	-	(716)	50,450	502	-	502	50,952
Total expense before depreciation and amortization	39,631	901,984	5,402,018	571,033	702,147	1,273,180	6,675,198
Depreciation and amortization	441	35,291	258,169	2,153	475	2,628	260,797
<b>TOTAL</b>	<b>\$ 40,072</b>	<b>\$ 937,275</b>	<b>\$ 5,660,187</b>	<b>\$ 573,186</b>	<b>\$ 702,622</b>	<b>\$ 1,275,808</b>	<b>\$ 6,935,995</b>

See accompanying notes to financial statements.



**SHINING HOPE FOR COMMUNITIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2017**

	Program Services					SUN
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	
Salaries with benefits and taxes	\$ 684,458	\$ 118,111	\$ 388,641	\$ 56,459	\$ 482,302	\$ 101,172
Professional fees	101,034	25,799	71,516	-	85,994	1,883
Repairs and maintenance	33,962	4,905	5,053	1,947	9,965	2,660
Rent	13,820	3,931	10,211	-	11,585	15
Program supplies	93,462	10,328	50,340	9,849	66,653	28,931
Medical supplies	244,494	3	1,635	9	7,538	218
Program food	39,313	7,906	34,272	6,836	60,148	32,916
Staff travel	7,352	2,546	8,579	199	7,354	74
Service fees	47,525	16,001	20,023	1,686	35,546	3,822
Classroom supplies	13	3	270	-	35,212	-
Bank charges	5,047	1,209	3,564	231	2,443	13
Events and training	2,619	2,153	2,862	19	39,240	1,910
Transportation	21,240	4,141	12,690	2,184	39,776	11,071
Marketing and promotions	1,894	387	1,114	55	704	195
Printing	2,212	955	13,672	11	1,962	34
Telecom and communications	7,066	2,252	4,822	1,741	4,671	2,858
Program equipment and rentals	43,878	5,820	71,431	1,481	62,835	6,592
Utilities	18,659	4,511	8,747	-	9,167	658
Uniforms	3,894	656	5,330	837	18,303	5,406
Miscellaneous	173	130	804	-	10,997	188
In-kind contributions	-	-	1,844	-	-	-
Scholarships	-	-	-	-	-	89,385
Loss on disposal of property and equipment	-	10,679	-	-	96,647	-
<b>Total expense before depreciation and amortization</b>	<b>1,372,115</b>	<b>222,426</b>	<b>717,420</b>	<b>83,544</b>	<b>1,089,042</b>	<b>290,001</b>
Depreciation and amortization	54,859	123,168	17,803	-	37,644	509
<b>TOTAL</b>	<b>\$ 1,426,974</b>	<b>\$ 345,594</b>	<b>\$ 735,223</b>	<b>\$ 83,544</b>	<b>\$ 1,126,686</b>	<b>\$ 290,510</b>

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services (Continued)			Supporting Services			Total Expenses
	SACCO	Kenya Program Operations	Total Program Services	General and Administrative	Development	Total Supporting Services	
Salaries with benefits and taxes	\$ 1,347	\$ 726,252	\$ 2,558,742	\$ 152,587	\$ 420,330	\$ 572,917	\$ 3,131,659
Professional fees	-	15,600	301,826	19,073	54,619	73,692	375,518
Repairs and maintenance	604	23,078	82,174	-	-	-	82,174
Rent	-	15,035	54,597	8,904	22,911	31,815	86,412
Program supplies	-	17,346	276,909	331	489	820	277,729
Medical supplies	-	1	253,898	-	-	-	253,898
Program food	-	13,855	195,246	210	159	369	195,615
Staff travel	-	1,290	27,394	19,577	62,168	81,745	109,139
Service fees	-	11,810	136,413	2,012	27,532	29,544	165,957
Classroom supplies	-	1	35,499	-	-	-	35,499
Bank charges	-	350	12,857	1,400	-	1,400	14,257
Events and training	-	29,534	78,337	1,611	9,847	11,458	89,795
Transportation	-	2,527	93,629	251	606	857	94,486
Marketing and promotions	-	597	4,946	5,287	24,518	29,805	34,751
Printing	-	311	19,157	161	26	187	19,344
Telecom and communications	-	2,374	25,784	874	3,527	4,401	30,185
Program equipment and rentals	146	38,385	230,568	7,904	8,170	16,074	246,642
Utilities	-	3,282	45,024	-	-	-	45,024
Uniforms	-	406	34,832	-	-	-	34,832
Miscellaneous	-	1,007	13,299	2,754	1,259	4,013	17,312
In-kind contributions	-	-	1,844	19,513	17,344	36,857	38,701
Scholarships	-	-	89,385	-	-	-	89,385
Loss on disposal of property and equipment	-	1	107,327	-	-	-	107,327
Total expense before depreciation and amortization	2,097	903,042	4,679,687	242,449	653,505	895,954	5,575,641
Depreciation and amortization	-	36,373	270,356	4,344	-	4,344	274,700
<b>TOTAL</b>	<b>\$ 2,097</b>	<b>\$ 939,415</b>	<b>\$ 4,950,043</b>	<b>\$ 246,793</b>	<b>\$ 653,505</b>	<b>\$ 900,298</b>	<b>\$ 5,850,341</b>

See accompanying notes to financial statements.

## SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 2,190,970	\$ 1,713,813
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	260,797	274,700
Loss on disposal of property and equipment	50,952	107,326
Donations of capital assets	(61,128)	(21,667)
Stock donations	-	(40,083)
Unrealized loss on investments	5,190	7,511
Realized gain on sales of investments	(1,027)	(5,870)
(Decrease) increase in:		
Grants and other receivables	(550,116)	84,900
Prepaid expenses and other assets	42,957	3,678
Security deposits	(16,948)	(689)
Increase in:		
Accounts payable and accrued liabilities	<u>101,286</u>	<u>129,860</u>
Net cash provided by operating activities	<u>2,022,933</u>	<u>2,253,479</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(673,794)	(1,884,888)
Payments made to acquire intangible assets	(16,931)	-
Purchases of investments	(118,174)	(6,057,754)
Proceeds from sales of investments	<u>541,561</u>	<u>103,880</u>
Net cash used by investing activities	<u>(267,338)</u>	<u>(7,838,762)</u>
Net increase (decrease) in cash and cash equivalents	1,755,595	(5,585,283)
Cash and cash equivalents at beginning of year	<u>2,047,488</u>	<u>7,632,771</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 3,803,083</u></b>	<b><u>\$ 2,047,488</u></b>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Stock Donations	<u>\$ -</u>	<u>\$ 245,510</u>
Transfer of Assets from Construction in Progress to Buildings and Improvements	<u>\$ 1,206,650</u>	<u>\$ -</u>

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**

Organization -

Shining Hope for Communities, Inc. (SHOFCO) is a non-profit organization, incorporated in the State of Connecticut, with offices located in New York and Kenya. SHOFCO's mission is to turn urban poverty into urban promise. SHOFCO combats gender inequality and extreme poverty in urban slums by linking tuition free schools for girls to holistic social services for all.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

Cash and cash equivalents -

SHOFCO considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts in the U.S. are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, SHOFCO maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

SHOFCO had \$210,552 and \$142,604 in cash and cash equivalents held at one financial institution (and on hand) in Kenya as of December 31, 2018 and 2017, respectively. The majority of these funds invested in Kenya are uninsured.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

Grants and other receivables -

Grants and other receivables are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Property and equipment -

Property and equipment acquisitions in excess of \$1,000 for equipment and \$5,000 for buildings are capitalized and stated at cost. Property and equipment is depreciated (or amortized) on a straight-line basis over the estimated useful lives of the related assets, generally 5 to 30 years.

The cost of maintenance and repairs is recorded as expenses are incurred. Property and equipment purchased with restricted funds is shown as a release from temporarily restricted net assets in the Statements of Activities and Changes in Net Assets in the year the asset is placed in service.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Property and equipment (continued) -

The total acquisition value of property and equipment located in Kenya aggregated \$4,280,605 and \$2,776,220 as of December 31, 2018 and 2017, respectively. Depreciation and amortization expense totaled \$260,797 and \$274,700 during the years ended December 31, 2018 and 2017, respectively.

Construction in progress -

Construction in progress consists of buildings and related assets that are not yet completed, and thus have not been placed in service as of fiscal year-end. Accordingly, there is no depreciation taken on these assets until such time when they are placed in service.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statements of Activities and Changes in Net Assets, to its current fair value.

Income taxes -

SHOFCO is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Beginning January 1, 2018, SHOFCO is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the year ended December 31, 2018, is immaterial. SHOFCO is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2018 and 2017, SHOFCO has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.

**Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in "net assets without donor restrictions" 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.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

Net asset classification (continued) -

**Net Assets With Donor Restrictions (continued)** - All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service.

Grants and contributions -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as "net assets with donor restriction" in the accompanying financial statements.

Functional currency reporting -

SHOFCO maintains cash in U.S. Dollars (USD) and in Kenya Shilling (KES). All non-USD revenues and expenses are reported in the Statements of Activities and Changes in Net Assets and have been translated to USD using average monthly exchange rates throughout the year. All year-end assets and liabilities (held in foreign currency) have been revalued at the current spot rates. Exchange rate variances have been offset against support and revenue in the Statements of Activities and Changes in Net Assets.

In-kind contributions -

In-kind contributions consist of donated office space, program materials and equipment, and legal services, and are recorded at their fair value as of the date of the gift. SHOFCO also receives contributions of assets (with a service life greater than one year), which are recognized as temporarily restricted revenue in the year of the donation. Once these assets are placed in service, they are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets released from restrictions.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

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

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
**(Continued)**

Functional allocation of expenses (continued) -

Expenses directly attributed to a specific functional area of SHOFCO are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis. Occupancy cost and office costs are allocated based on the monthly employee headcount.

Risks and uncertainties -

SHOFCO invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

SHOFCO adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

SHOFCO accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of \$8,617,206 are now classified as "without donor restrictions". Net assets previously classified as temporarily restricted net assets in the amount of \$3,133,194, are now classified as "with donor restrictions".

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. SHOFCO has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION  
(Continued)**

New accounting pronouncements (not yet adopted) (continued) -

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. SHOFCO has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

SHOFCO plans to adopt the new ASUs at the respective required implementation dates.

**2. INVESTMENTS**

Investments consisted of the following as of December 31, 2018 and 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
<b>Mutual Funds</b>	<b><u>\$ 5,675,476</u></b>	<b><u>\$ 5,664,301</u></b>	<b><u>\$ 6,097,837</u></b>	<b><u>\$ 6,091,852</u></b>

Included in investment income are the following during the years ended December 31, 2018 and 2017:

	2018	2017
Interest and dividends	\$ 130,822	\$ 58,542
Unrealized loss on investments	(5,190)	(7,511)
Realized gain on sales of investments	<u>1,027</u>	<u>5,870</u>
<b>TOTAL INVESTMENT INCOME</b>	<b><u>\$ 126,659</u></b>	<b><u>\$ 56,901</u></b>

**3. CONDITIONAL PROMISES TO GIVE**

During the year ended December 31, 2018, SHOFCO received grants from various donors totaling \$9,686,431. The awards are contingent upon SHOFCO meeting certain milestones as defined in the grant agreements. Accordingly, the awards are deemed conditional and have not been recorded in the accompanying financial statements.



**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**4. BOARD DESIGNATED NET ASSETS**

The Board of Directors of SHOFSCO has designated a portion of the net assets without restrictions for the Shining Hope Fund for the primary purpose of ensuring continued growth of The Kibera School for Girls. It is also the objective of the Board of Directors to utilize these resources to ensure that SHOFSCO will be able to uphold the commitments made to the students and Kibera community in a sustainable way. As of December 31, 2018 and 2017, SHOFSCO's "net assets without restrictions" included \$750,000 of Board-designated net assets.

Following is a reconciliation of SHOFSCO's net assets without restrictions at December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Undesignated net assets	\$ 11,314,145	\$ 7,867,206
Board designated net assets	750,000	750,000
<b>TOTAL NET ASSETS WITHOUT RESTRICTIONS</b>	<b><u>\$ 12,064,145</u></b>	<b><u>\$ 8,617,206</u></b>

**5. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at December 31, 2018 and 2017:

	<b>2018</b>	<b>2017</b>
Program	\$ 1,584,042	\$ 2,933,194
Time restricted	293,183	200,000
<b>TOTAL NET ASSETS WITH RESTRICTIONS</b>	<b><u>\$ 1,877,225</u></b>	<b><u>\$ 3,133,194</u></b>

The following net assets with donor restrictions were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

	<b>2018</b>	<b>2017</b>
Program	\$ 5,041,524	\$ 3,413,094
Passage of time	250,000	3,336
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 5,291,524</u></b>	<b><u>\$ 3,416,430</u></b>

**6. LIQUIDITY AND AVAILABILITY**

SHOFSCO regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**6. LIQUIDITY AND AVAILABILITY (Continued)**

The financial assets available within one year of the Statements of Financial Position date for general expenditures as of December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 3,803,083	\$ 2,047,488
Investments	5,664,301	6,091,852
Grants and other receivables	<u>1,065,493</u>	<u>415,377</u>
Subtotal financial assets	10,532,877	8,554,717
Less: Amounts unavailable for general expenditures within one year due to donor's restriction	(1,877,225)	(3,133,194)
Less: Amounts unavailable to management without Board approval: Board-designated Shining Hope Fund	<u>(750,000)</u>	<u>(750,000)</u>
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b><u>\$ 7,905,652</u></b>	<b><u>\$ 4,671,523</u></b>

SHOFCO has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of Shining Hope for Communities throughout the year. This is done through monitoring and reviewing the cash flow needs on a monthly basis. As a result, management is aware of the cyclical nature of SHOFCO's cash flow related to the various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in a fixed-income mutual fund. Shining Hope for Communities can liquidate its investments anytime, and therefore the investments are available to meet current cash flow needs. Additionally, Shining Hope for Communities has Board designated net assets that could be available for current operations with Board approval, if necessary.

**7. IN-KIND CONTRIBUTIONS**

During the years ended December 31, 2018 and 2017, SHOFCO was the beneficiary of donated office space, program materials and equipment, and legal services, which allowed SHOFCO to provide greater resources toward various programs. To properly reflect total program expenses, the following donations have been included in revenue and expense during the years ended December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Donated office space	\$ 38,700	\$ 54,675
Donated program materials and equipment	67,025	-
Donated legal services	<u>14,328</u>	<u>15,930</u>
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$ 120,053</u></b>	<b><u>\$ 70,605</u></b>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017

8. LEASE COMMITMENTS

SHOFCO leases its headquarters office space in New York City, under a month-to-month agreement. Base rent varies depending on the number of offices/desks rented. Additionally, the lease may be terminated with 30 days notice. During the years ended December 31, 2018 and 2017, SHOFCO received substantial discounted rent from this landlord, which is included in in-kind contributions in the accompanying Statements of Activities and Changes in Net Assets.

SHOFCO currently leases a multi-use building in Nairobi, Kenya, under a two-year lease, which terminated on January 31, 2018 but was subsequently extended through December 31, 2019. The lease required monthly payment of KES 180,000 (roughly \$1,820) during the first year of the lease. Effective January 15, 2017 (the start of the second year of the lease), the monthly payment increased to KES 193,500 (roughly \$1,950), and will continue to increase by a factor of 7.5% per annum in each subsequent lease year.

Rent expense during the years ended December 31, 2018 and 2017 totaled \$94,552 and \$86,412, respectively.

The following is a schedule of the future minimum lease payments:

Year Ended December 31, 2019	\$ <u>25,760</u>
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9. RETIREMENT PLAN

SHOFCO provides a 401(k) retirement plan to its employees through an employer defined contribution plan. Employees must be at least twenty one years of age and have worked for six months to be eligible for the employer discretionary contribution. During 2018 the Plan was amended to provide an employer matching contribution. SHOFCO provides a 100% match of each eligible employee's contribution, up to 4% of covered compensation. Contributions to the Plan during the year ended December 31, 2018 totaled \$5,390. SHOFCO did not, and was not required to, make any contributions to the Plan during the year ended December 31, 2017.

10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, SHOFCO has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market SHOFCO has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2018 AND 2017**

**10. FAIR VALUE MEASUREMENT (Continued)**

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value.

There have been no changes in the methodologies used as of December 31, 2018 and 2017.

*Mutual funds* - Valued at the daily closing price as reported by the fund. Mutual funds held by SHOFCO are open-end mutual funds that are registered with the Securities and Exchange Commission (SEC). These funds are required to publish their daily net asset value (NAV) and to transact at that price. Mutual funds held by the SHOFCO are deemed to be actively traded. As of December 31, 2018 and 2017, SHOFCO's investment balances consisted of one mutual fund. The fund invests in investment-grade, US dollar-denominated fixed and floating-rate debt with a strategy to create current income.

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2018</u>
<b>Asset Class:</b>				
<b>Mutual Funds</b>	<u>\$ 5,664,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,664,301</u>

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2017:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2017</u>
<b>Asset Class:</b>				
<b>Mutual Funds</b>	<u>\$ 6,091,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,091,852</u>

**11. SUBSEQUENT EVENTS**

In preparing these financial statements, SHOFCO has evaluated events and transactions for potential recognition or disclosure through July 20, 2019, the date the financial statements were issued.