

## **FINANCIAL STATEMENTS**



Shining Hope  
for Communities

**FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

**SHINING HOPE FOR COMMUNITIES, INC.**

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**CPAs & ADVISORS**

## **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, 2019 and 2018, 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.

4550 MONTGOMERY AVENUE • SUITE 800 NORTH • BETHESDA, MARYLAND 20814  
(301) 951-9090 • WWW.GRFCPA.COM

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## 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, 2019 and 2018, and the changes in its net assets, functional expenses and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Gelman Rosenberg & Friedman*

August 11, 2020

## SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2019 AND 2018

<b>ASSETS</b>		<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	4,315,534	\$ 3,803,083
Investments		7,350,095	5,664,301
Grants and other receivables		691,244	1,065,493
Loans receivable		79,483	-
Inventory		9,296	-
Prepaid expenses and other assets		<u>196,108</u>	<u>22,070</u>
Total current assets		<u>12,641,760</u>	<u>10,554,947</u>
<b>PROPERTY AND EQUIPMENT</b>			
Land		359,510	332,785
Buildings and improvements		2,173,328	2,046,785
Program equipment		707,118	646,492
Water supply infrastructure		1,212,494	1,094,047
Software		68,742	60,593
Vehicles		<u>170,303</u>	<u>99,903</u>
		4,691,495	4,280,605
Less: Accumulated depreciation and amortization		<u>(968,936)</u>	<u>(680,644)</u>
Net property and equipment		<u>3,722,559</u>	<u>3,599,961</u>
<b>NONCURRENT ASSETS</b>			
Security deposits		30,588	26,315
Construction in progress		404,744	89,532
Intangible assets		<u>16,931</u>	<u>16,931</u>
Total noncurrent assets		<u>452,263</u>	<u>132,778</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 16,816,582</u></b>	<b><u>\$ 14,287,686</u></b>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable and accrued liabilities	\$	<u>420,685</u>	\$ <u>346,316</u>
<b>NET ASSETS</b>			
Without donor restrictions		12,942,953	12,064,145
With donor restrictions		<u>3,452,944</u>	<u>1,877,225</u>
Total net assets		<u>16,395,897</u>	<u>13,941,370</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>\$ 16,816,582</u></b>	<b><u>\$ 14,287,686</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, 2019 AND 2018**

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Foundation grants	\$ 1,614,288	\$ 4,174,207	\$ 5,788,495
Individual contributions	1,491,136	859,761	2,350,897
Corporate contributions	54,699	50,506	105,205
Project income	1,435	65,871	67,306
In-kind contributions	65,199	16,146	81,345
Investment income	197,786	-	197,786
Net assets released from donor restrictions	<u>3,590,772</u>	<u>(3,590,772)</u>	<u>-</u>
Total support and revenue	<u>7,015,315</u>	<u>1,575,719</u>	<u>8,591,034</u>
<b>EXPENSES</b>			
Program Services:			
Health	1,262,052	-	1,262,052
WASH	228,557	-	228,557
Essential Services	449,102	-	449,102
Sustainable Livelihoods	155,504	-	155,504
Girls Leadership and Education	1,161,685	-	1,161,685
SUN	616,192	-	616,192
SACCO	61,167	-	61,167
Kenya Program Operations	<u>888,951</u>	<u>-</u>	<u>888,951</u>
Total program services	<u>4,823,210</u>	<u>-</u>	<u>4,823,210</u>
Supporting Services:			
General and Administrative	767,966	-	767,966
Development	<u>545,331</u>	<u>-</u>	<u>545,331</u>
Total supporting services	<u>1,313,297</u>	<u>-</u>	<u>1,313,297</u>
Total expenses	<u>6,136,507</u>	<u>-</u>	<u>6,136,507</u>
Changes in net assets	878,808	1,575,719	2,454,527
Net assets at beginning of year	<u>12,064,145</u>	<u>1,877,225</u>	<u>13,941,370</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 12,942,953</u></b>	<b><u>\$ 3,452,944</u></b>	<b><u>\$ 16,395,897</u></b>

<b>2018</b>		
<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
\$ 3,290,825	\$ 3,162,657	\$ 6,453,482
1,521,963	804,205	2,326,168
31,390	17,475	48,865
520	51,218	51,738
120,053	-	120,053
126,659	-	126,659
<u>5,291,524</u>	<u>(5,291,524)</u>	<u>-</u>
<u>10,382,934</u>	<u>(1,255,969)</u>	<u>9,126,965</u>
1,579,965	-	1,579,965
279,121	-	279,121
546,783	-	546,783
362,737	-	362,737
1,295,792	-	1,295,792
618,442	-	618,442
40,072	-	40,072
<u>937,275</u>	<u>-</u>	<u>937,275</u>
<u>5,660,187</u>	<u>-</u>	<u>5,660,187</u>
573,186	-	573,186
<u>702,622</u>	<u>-</u>	<u>702,622</u>
<u>1,275,808</u>	<u>-</u>	<u>1,275,808</u>
<u>6,935,995</u>	<u>-</u>	<u>6,935,995</u>
3,446,939	(1,255,969)	2,190,970
<u>8,617,206</u>	<u>3,133,194</u>	<u>11,750,400</u>
<b><u>\$ 12,064,145</u></b>	<b><u>\$ 1,877,225</u></b>	<b><u>\$ 13,941,370</u></b>

See accompanying notes to financial statements.

**SHINING HOPE FOR COMMUNITIES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	Program Services					
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	SUN
Salaries with benefits and taxes	\$ 772,196	\$ 81,104	\$ 296,260	\$ 110,726	\$ 624,735	\$ 288,795
Professional fees	9,236	753	2,682	450	48,852	14,220
Repairs and maintenance	34,658	8,128	17,805	988	19,009	9,696
Rent	17,999	1,009	8,141	3,390	19,402	18,778
Program supplies	24,901	3,930	24,360	6,129	99,827	25,356
Medical supplies	209,234	-	58	-	10,026	-
Program food	11,695	644	26,928	4,327	71,254	43,896
Staff travel	4,414	528	5,808	1,193	8,726	14,570
Service fees	38,221	5,663	12,313	8,720	42,244	9,463
Bank charges	165	-	-	-	25	13
Events and training	1,264	255	1,657	206	14,061	25,928
Transportation	15,706	1,349	7,331	2,181	47,564	10,521
Marketing and promotions	-	466	-	-	-	147
Printing	752	-	496	2	3,593	2,102
Telecom and communications	6,939	521	9,494	2,166	8,194	7,520
Program equipment and rentals	7,757	432	8,279	10,884	5,866	12,196
Utilities	26,607	13,428	14,123	3,628	19,058	11,519
Uniforms	-	-	885	-	20,614	-
Miscellaneous	298	-	-	30	8,549	911
Scholarships and equipment	-	-	717	-	42,791	112,911
	9,274	98	-	-	-	-
Total expense before depreciation and amortization	1,191,316	118,308	437,337	155,020	1,114,390	608,542
Depreciation and amortization	70,736	110,249	11,765	484	47,295	7,650
<b>TOTAL</b>	<b>\$ 1,262,052</b>	<b>\$ 228,557</b>	<b>\$ 449,102</b>	<b>\$ 155,504</b>	<b>\$ 1,161,685</b>	<b>\$ 616,192</b>

See accompanying notes to financial statements.



SHINING HOPE FOR COMMUNITIES, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	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	\$ 44,340	\$ 595,289	\$ 2,813,445	\$ 343,487	\$ 421,830	\$ 765,317	\$ 3,578,762
Professional fees	622	75,732	152,547	252,192	61,119	313,311	465,858
Repairs and maintenance	117	19,047	109,448	188	103	291	109,739
Rent	400	13,430	82,549	81,946	59	82,005	164,554
Program supplies	736	14,937	200,176	739	227	966	201,142
Medical supplies	-	-	219,318	-	-	-	219,318
Program food	475	7,848	167,067	682	388	1,070	168,137
Staff travel	213	5,183	40,635	39,787	18,277	58,064	98,699
Service fees	1,912	15,320	133,856	21,775	11,300	33,075	166,931
Bank charges	-	18,217	18,420	651	-	651	19,071
Events and training	171	10,099	53,641	12,880	7,847	20,727	74,368
Transportation	478	6,930	92,060	459	212	671	92,731
Marketing and promotions	1,356	-	1,969	446	15,852	16,298	18,267
Printing	307	1,632	8,884	53	-	53	8,937
Telecom and communications	1,448	5,029	41,311	4,696	82	4,778	46,089
Program equipment and rentals	2,416	31,093	78,923	4,424	7,214	11,638	90,561
Utilities	807	24,654	113,824	1,446	118	1,564	115,388
Uniforms	-	-	21,499	-	-	-	21,499
Miscellaneous	-	1,721	11,509	517	82	599	12,108
Scholarships and equipment	-	-	156,419	-	-	-	156,419
	-	-	9,372	-	-	-	9,372
Total expense before depreciation and amortization	55,798	846,161	4,526,872	766,368	544,710	1,311,078	5,837,950
Depreciation and amortization	5,369	42,790	296,338	1,598	621	2,219	298,557
<b>TOTAL</b>	<b>\$ 61,167</b>	<b>\$ 888,951</b>	<b>\$ 4,823,210</b>	<b>\$ 767,966</b>	<b>\$ 545,331</b>	<b>\$ 1,313,297</b>	<b>\$ 6,136,507</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			
	SACCO	Kenya Program Operations	Total Program Services	General and Administrative	Development	Total Supporting Services	Total Expenses
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	75,223	73	75,296	133,252
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	609,733	702,147	1,311,880	6,713,898
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>\$ 611,886</b>	<b>\$ 702,622</b>	<b>\$ 1,314,508</b>	<b>\$ 6,974,695</b>

See accompanying notes to financial statements.

## SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 2,454,527	\$ 2,190,970
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	298,557	260,797
Loss on disposal of property and equipment	9,372	50,952
Donations of capital assets	-	(61,128)
Unrealized (gain) loss on investments	(23,046)	5,190
Realized gain on sales of investments	(233)	(1,027)
Decrease (increase) in:		
Grants and other receivables	374,249	(550,116)
Inventory	(9,296)	-
Prepaid expenses and other assets	(174,038)	42,957
Security deposits	(4,273)	(16,948)
Increase in:		
Accounts payable and accrued liabilities	<u>74,369</u>	<u>101,286</u>
Net cash provided by operating activities	<u>3,000,188</u>	<u>2,022,933</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(745,739)	(673,794)
Loan proceeds disbursed	(79,483)	-
Payments made to acquire intangible assets	-	(16,931)
Purchases of investments	(1,667,825)	(118,174)
Proceeds from sales of investments	<u>5,310</u>	<u>541,561</u>
Net cash used by investing activities	<u>(2,487,737)</u>	<u>(267,338)</u>
Net increase in cash and cash equivalents	512,451	1,755,595
Cash and cash equivalents at beginning of year	<u>3,803,083</u>	<u>2,047,488</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 4,315,534</u></b>	<b><u>\$ 3,803,083</u></b>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:</b>		
Stock Donations	<u>\$ 5,078</u>	<u>\$ -</u>
Transfer of Assets from Construction in Progress to Buildings and Improvements	<u>\$ 238,568</u>	<u>\$ 1,206,650</u>

## SHINING HOPE FOR COMMUNITIES, INC.

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

#### 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. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor 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 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. 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 donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

##### New accounting pronouncements adopted -

During 2019, SHOFCO adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way SHOFCO recognized revenue; however, the presentation and disclosures of revenue have been enhanced. SHOFCO has elected to opt out of all (or certain) disclosures not required for nonpublic entities and also elected a modified retrospective approach for implementation.

Also during 2019, SHOFCO adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. SHOFCO adopted the ASU using a modified prospective basis.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

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 maintained \$78,658 and \$210,552 in cash and cash equivalents at one financial institution (and on hand) in Kenya as of December 31, 2019 and 2018, respectively. The majority of these funds invested in Kenya are uninsured.

Investments -

Investments are recorded at their readily determinable fair value. Interest, dividends, realized and unrealized gains and losses are included in investment income, which is presented net of investment expenses paid to external investment advisors, in the accompanying Statements of Activities and Changes in Net Assets.

Investments acquired by gift are recorded at their fair value at the date of the gift. SHOFCO's policy is to liquidate all gifts of investments as soon as possible after the gift.

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. The total acquisition value of property and equipment held in Kenya aggregated \$4,691,495 and \$4,280,605 as of December 31, 2019 and 2018, respectively. Depreciation and amortization expense totaled \$298,557 and \$260,797 during the years ended December 31, 2019 and 2018, 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.

Intangible assets -

Intangible assets include patents pending approval. Upon approval, the useful life will be determined, and amortization will commence.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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

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. There were no asset impairments during the years ended December 31, 2019 and 2018.

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. SHOFCO is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2019 and 2018, 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.

Revenue recognition -

The majority of SHOFCO's revenue is received through awards from individuals, corporations, foundations, and other entities. Awards from donors are recognized in the appropriate category of net assets in the period received. SHOFCO performs an analysis of each award to determine whether the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal. For awards qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Awards qualifying as contributions that are unconditional that have 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 restrictions in the accompanying financial statements. Awards received in advance of incurring the related expenses is recorded as "net assets with donor restrictions".

Awards qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Typically, these agreements also contain a right of return or right of release from obligation provisions and the entity has limited discretion over how funds transferred should be spent. As such, SHOFCO recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For awards treated as contributions, SHOFCO received \$8,313,394 and \$9,686,431 in unrecognized conditional awards as of December 31, 2019 and 2018, respectively.

Awards classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers* and record revenue when the performance obligations are met; the revenue is recorded without donor restrictions and the transaction price is based on expenses incurred in compliance with the criteria stipulated in the agreements.

# SHINING HOPE FOR COMMUNITIES, INC.

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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

#### 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 revenue with donor restrictions in the year of the donation. Once these assets are placed in service, they are reclassified to net assets without donor restrictions and reported in the Statements of Activities and Changes in Net Assets as releases from donor 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. 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.



**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

Fair value measurement (continued) -

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

New accounting pronouncements (not yet adopted) -

FASB issued ASU 2019-01, *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 non public entities beginning after December 15, 2020. Early adoption is permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

SHOFCO plans to adopt the new ASU at the required implementation date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

**2. INVESTMENTS**

Investments consisted of the following as of December 31, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
<b>Mutual Funds</b>	<b>\$ <u>7,338,224</u></b>	<b>\$ <u>7,350,095</u></b>	<b>\$ <u>5,675,476</u></b>	<b>\$ <u>5,664,301</u></b>

Included in investment income are the following during the years ended December 31, 2019 and 2018:

	2019	2018
Interest and dividends	\$ 174,507	\$ 130,822
Unrealized gain (loss) on investments	23,046	(5,190)
Realized gain on sales of investments	233	1,027
<b>TOTAL INVESTMENT INCOME</b>	<b>\$ <u><u>197,786</u></u></b>	<b>\$ <u><u>126,659</u></u></b>

**3. LOANS RECEIVABLE**

SHOFCO SACCO (SACCO) is a savings and credit cooperative that was established under the Cooperatives Act of Kenya and is overseen by the Ministry of Industrialization, Trade, and Enterprise Development. SACCO has over 3000 members, and approximately 10% of members are SHOFCO staff. Members own SACCO by virtue of owning shares and savings. Members meet once a year during the annual general meeting (AGM) where they select the governing board.

SACCO receives support from SHOFCO as follows:

- Donations to cover operating expenses. This support is expected to last for at least one more fiscal year as SACCO's operations continue to develop.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**3. LOANS RECEIVABLE (Continued)**

- Loan capital to support cashflow needs. SACCO has begun to the loan through monthly installments (during 2020). The loan capital is necessary during the early stages of SACCO formation when the demand for member loans tends to exceed the rate of membership savings. Typically, cooperatives borrow money at high-interest rates to meet this loan demand. During the year ended December 31, 2019, SHOFCO provided SACCO 8,000,000 Kenyan Shillings (\$79,483) of loan capital, of which the full amount was due to SHOFCO as of December 31, 2019. The full amount of the loan is expected to be paid in full by December 31, 2020.

While SACCO is supported by SHOFCO, it is wholly owned by its members and SHOFCO has no influence or control over the organization.

**4. BOARD DESIGNATED NET ASSETS**

The Board of Directors of SHOFCO 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 SHOFCO will be able to uphold the commitments made to the students and Kibera community in a sustainable way. As of December 31, 2019 and 2018, SHOFCO's "net assets without restrictions" included \$750,000 of Board designated net assets. Following is a reconciliation of SHOFCO's net assets without restrictions at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Undesignated net assets	\$ 12,192,953	\$ 11,314,145
Board designated net assets	750,000	750,000
<b>TOTAL NET ASSETS WITHOUT RESTRICTIONS</b>	<b>\$ 12,942,953</b>	<b>\$ 12,064,145</b>

**5. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consist of the following at December 31, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Program	\$ 2,977,944	\$ 1,584,042
Time restricted	475,000	293,183
<b>TOTAL NET ASSETS WITH RESTRICTIONS</b>	<b>\$ 3,452,944</b>	<b>\$ 1,877,225</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>2019</b>	<b>2018</b>
Program	\$ 3,297,589	\$ 5,041,524
Passage of time	293,183	250,000
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b>\$ 3,590,772</b>	<b>\$ 5,291,524</b>

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**6. LIQUIDITY AND AVAILABILITY**

SHOFCO 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. The financial assets available within one year of the Statements of Financial Position date for general expenditures as of December 31, 2019 and 2018 were as follows:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 4,315,534	\$ 3,803,083
Investments	7,350,095	5,664,301
Grants and other receivables	691,244	1,065,493
Subtotal financial assets	12,356,873	10,532,877
Less: Amounts unavailable for general expenditures within one year due to donor's restriction	(2,977,944)	(1,584,042)
Less: Amounts unavailable to management without Board approval: Board designated Shining Hope Fund	(750,000)	(750,000)
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ 8,628,929</b>	<b>\$ 8,198,835</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. As of December 31, 2019 and 2018, SHOFCO has financial assets equal to approximately 17 and 14 months of operating expenses, respectively.

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, 2019 and 2018, 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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Donated office space	\$ 41,322	\$ 38,700
Donated program materials and equipment	16,794	67,025
Donated legal services	23,229	14,328
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b>\$ 81,345</b>	<b>\$ 120,053</b>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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, 2019 and 2018, SHOFCO received substantial discounted rent from this landlord, which is included in rent expense in the accompanying Statements of Activities and Changes in Net Assets.

SHOFCO leased a multi-use building in Nairobi, Kenya, under a four-year lease, which terminated on 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 continued to increase by a factor of 7.5% per annum in each subsequent lease year.

Effective November 1, 2019, SHOFCO entered into a two-year lease for office space in Nairobi, Kenya. The lease requires monthly payments of KES 300,000 (roughly \$2,900).

Rent expense during the years ended December 31, 2019 and 2018 totaled \$123,232 and \$94,552, respectively.

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

Year Ending December 31,

2020	\$	34,800
2021		<u>29,000</u>
	\$	<u>63,800</u>

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 three 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 years ended December 31, 2019 and 2018 totaled \$17,670 and \$5,390.

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.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

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

**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.

**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, 2019 and 2018.

*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 SHOFCO are deemed to be actively traded. As of December 31, 2019 and 2018, SHOFCO's investments 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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Asset Class:</b>				
<b>Mutual Funds</b>	\$ <u>7,350,095</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>7,350,095</u>

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</u>
<b>Asset Class:</b>				
<b>Mutual Funds</b>	\$ <u>5,664,301</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>5,664,301</u>

**11. SUBSEQUENT EVENTS**

In preparing these financial statements, SHOFCO has evaluated events and transactions for potential recognition or disclosure through August 11, 2020, the date the financial statements were issued.

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact SHOFCO's operations. The overall potential impact is unknown at this time.

On May 4, 2020, SHOFCO entered into a two-year promissory note agreement in the amount of \$89,297 with a 1% fixed interest rate under the Paycheck Protection Program. The promissory note requires monthly principal and interest payments amortized over the term of the promissory note beginning November 2020, unless otherwise forgiven. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.