

FINANCIAL STATEMENTS



Shining Hope
for Communities

**FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019**

SHINING HOPE FOR COMMUNITIES, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2
EXHIBIT A - Statements of Financial Position, as of December 31, 2020 and 2019	3
EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2020 and 2019	4 - 5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2020	6 - 7
EXHIBIT D - Statement of Functional Expenses, for the Year Ended December 31, 2019	8 - 9
EXHIBIT E - Statements of Cash Flows, for the Years Ended December 31, 2020 and 2019	10
NOTES TO FINANCIAL STATEMENTS	11 - 20



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, 2020 and 2019, 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, 2020 and 2019, 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.

A handwritten signature in black ink that reads "Gelman Rosenberg & Freedman". The signature is written in a cursive, flowing style.

June 24, 2021

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

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,749,529	\$ 4,315,534
Investments	8,465,170	7,350,095
Grants and other receivables	1,134,396	691,244
Loans receivable	-	79,483
Inventory	-	9,296
Prepaid expenses and other assets	<u>167,088</u>	<u>196,108</u>
Total current assets	<u>16,516,183</u>	<u>12,641,760</u>
PROPERTY AND EQUIPMENT		
Land	396,534	359,510
Buildings and improvements	2,708,250	2,173,328
Program equipment	720,417	707,118
Water supply infrastructure	1,480,723	1,212,494
Software	68,742	68,742
Vehicles	<u>145,454</u>	<u>170,303</u>
	5,520,120	4,691,495
Less: Accumulated depreciation and amortization	<u>(1,270,665)</u>	<u>(968,936)</u>
Net property and equipment	<u>4,249,455</u>	<u>3,722,559</u>
NONCURRENT ASSETS		
Security deposits	21,671	30,588
Construction in progress	120,075	404,744
Intangible assets	<u>-</u>	<u>16,931</u>
Total noncurrent assets	<u>141,746</u>	<u>452,263</u>
TOTAL ASSETS	<u>\$ 20,907,384</u>	<u>\$ 16,816,582</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Loan payable	\$ 89,879	\$ -
Accounts payable and accrued liabilities	317,425	420,685
Refundable advances	<u>64,831</u>	<u>-</u>
Total liabilities	<u>472,135</u>	<u>420,685</u>
NET ASSETS		
Without donor restrictions	16,496,852	12,942,953
With donor restrictions	<u>3,938,397</u>	<u>3,452,944</u>
Total net assets	<u>20,435,249</u>	<u>16,395,897</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 20,907,384</u>	<u>\$ 16,816,582</u>

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, 2020 AND 2019**

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Foundation grants	\$ 2,541,997	\$ 6,724,821	\$ 9,266,818
Individual contributions	1,868,012	955,707	2,823,719
Corporate contributions	74,901	128,137	203,038
Government grants	60,855	-	60,855
Project income	51,228	-	51,228
In-kind contributions	538,967	-	538,967
Loss on disposal of fixed assets	(5,476)	-	(5,476)
Investment income, net	108,211	-	108,211
Net assets released from donor restrictions	<u>7,323,212</u>	<u>(7,323,212)</u>	<u>-</u>
Total support and revenue	<u>12,561,907</u>	<u>485,453</u>	<u>13,047,360</u>
EXPENSES			
Program Services:			
Health	1,486,451	-	1,486,451
WASH	2,009,437	-	2,009,437
Essential Services	391,118	-	391,118
Sustainable Livelihoods	157,510	-	157,510
Girls Leadership and Education	968,362	-	968,362
SUN	1,696,850	-	1,696,850
SACCO	133,104	-	133,104
Kenya Program Operations	<u>808,157</u>	<u>-</u>	<u>808,157</u>
Total program services	<u>7,650,989</u>	<u>-</u>	<u>7,650,989</u>
Supporting Services:			
General and Administrative	759,938	-	759,938
Development	<u>597,081</u>	<u>-</u>	<u>597,081</u>
Total supporting services	<u>1,357,019</u>	<u>-</u>	<u>1,357,019</u>
Total expenses	<u>9,008,008</u>	<u>-</u>	<u>9,008,008</u>
Changes in net assets	3,553,899	485,453	4,039,352
Net assets at beginning of year	<u>12,942,953</u>	<u>3,452,944</u>	<u>16,395,897</u>
NET ASSETS AT END OF YEAR	<u>\$ 16,496,852</u>	<u>\$ 3,938,397</u>	<u>\$ 20,435,249</u>

See accompanying notes to financial statements.

2019		
Without Donor Restrictions	With Donor Restrictions	Total
\$ 1,614,288	\$ 4,174,207	\$ 5,788,495
1,491,136	859,761	2,350,897
54,699	50,506	105,205
-	-	-
1,435	65,871	67,306
65,199	16,146	81,345
(9,372)	-	(9,372)
197,786	-	197,786
<u>3,590,772</u>	<u>(3,590,772)</u>	<u>-</u>
<u>7,005,943</u>	<u>1,575,719</u>	<u>8,581,662</u>
1,252,778	-	1,252,778
228,459	-	228,459
449,102	-	449,102
155,504	-	155,504
1,161,685	-	1,161,685
616,192	-	616,192
61,167	-	61,167
<u>888,951</u>	<u>-</u>	<u>888,951</u>
<u>4,813,838</u>	<u>-</u>	<u>4,813,838</u>
767,966	-	767,966
<u>545,331</u>	<u>-</u>	<u>545,331</u>
<u>1,313,297</u>	<u>-</u>	<u>1,313,297</u>
<u>6,127,135</u>	<u>-</u>	<u>6,127,135</u>
878,808	1,575,719	2,454,527
<u>12,064,145</u>	<u>1,877,225</u>	<u>13,941,370</u>
<u>\$ 12,942,953</u>	<u>\$ 3,452,944</u>	<u>\$ 16,395,897</u>

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	Program Services					
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	SUN
Salaries with benefits and taxes	\$ 837,485	\$ 532,830	\$ 268,341	\$ 70,829	\$ 564,724	\$ 513,208
Professional fees	9,112	1,634	2,015	300	29,544	56,010
Repairs and maintenance	17,854	9,479	11,299	622	15,168	13,945
Rent	16,348	1,336	9,233	4,267	20,571	39,949
Program supplies	302,413	1,250,553	12,022	66,376	86,728	292,155
Medical supplies	125,613	-	-	-	9,937	488
Program food	15,068	4,247	13,189	4,185	35,708	366,412
Travel and transportation	15,971	33,061	25,817	1,946	43,626	53,720
Service fees	27,296	9,994	8,236	1,588	27,428	27,225
Bank charges	144	2,148	40	-	7	104
Events and training	2,928	-	464	-	927	26,035
Marketing and promotions	-	387	3,487	-	-	2,935
Printing	8,227	200	1,075	44	2,159	10,602
Telecom and communications	7,725	950	7,440	1,993	11,147	45,752
Program equipment, software and rentals	8,893	7,690	4,259	2,398	5,695	89,641
Utilities	16,020	7,612	9,700	2,384	14,498	14,524
Uniforms	-	-	776	-	14,480	1,715
Miscellaneous	8,186	100	235	94	6,089	716
Scholarships	-	-	410	-	32,612	80,670
Grant to individuals	-	-	-	-	-	32,253
Grants to other organizations	1,022	7,367	-	-	-	20,381
Total expense before depreciation and amortization	1,420,305	1,869,588	378,038	157,026	921,048	1,688,440
Depreciation and amortization	66,146	139,849	13,080	484	47,314	8,410
TOTAL	\$ 1,486,451	\$ 2,009,437	\$ 391,118	\$ 157,510	\$ 968,362	\$ 1,696,850

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020

	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	\$ 59,846	\$ 573,121	\$ 3,420,384	\$ 312,474	\$ 362,652	\$ 675,126	\$ 4,095,510
Professional fees	2,514	27,328	128,457	265,906	192,034	457,940	586,397
Repairs and maintenance	380	7,699	76,446	280	-	280	76,726
Rent	702	12,024	104,430	68,825	-	68,825	173,255
Program supplies	718	7,856	2,018,821	5,001	24	5,025	2,023,846
Medical supplies	-	-	136,038	-	-	-	136,038
Program food	785	4,539	444,133	257	-	257	444,390
Travel and transportation	701	15,691	190,533	3,826	1,703	5,529	196,062
Service fees	1,159	10,007	112,933	65,754	1,676	67,430	180,363
Bank charges	-	20,524	22,967	516	20	536	23,503
Events and training	464	1,249	32,067	4,269	1,268	5,537	37,604
Marketing and promotions	1,125	94	8,028	31	19,241	19,272	27,300
Printing	526	2,808	25,641	619	-	619	26,260
Telecom and communications	995	5,746	81,748	3,180	246	3,426	85,174
Program equipment, software and rentals	9,298	42,968	170,842	24,849	17,574	42,423	213,265
Utilities	998	18,419	84,155	1,400	-	1,400	85,555
Uniforms	-	-	16,971	-	-	-	16,971
Miscellaneous	-	5,288	20,708	1,089	-	1,089	21,797
Scholarships	-	-	113,692	-	-	-	113,692
Grant to individuals	-	-	32,253	-	-	-	32,253
Grants to other organizations	47,524	-	76,294	-	-	-	76,294
Total expense before depreciation and amortization	127,735	755,361	7,317,541	758,276	596,438	1,354,714	8,672,255
Depreciation and amortization	5,369	52,796	333,448	1,662	643	2,305	335,753
TOTAL	\$ 133,104	\$ 808,157	\$ 7,650,989	\$ 759,938	\$ 597,081	\$ 1,357,019	\$ 9,008,008

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
Travel and transportation	20,120	1,877	13,139	3,374	56,290	25,091
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
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, software 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	-	-	717	-	42,791	112,911
Total expense before depreciation and amortization	1,182,042	118,210	437,337	155,020	1,114,390	608,542
Depreciation and amortization	70,736	110,249	11,765	484	47,295	7,650
TOTAL	\$ 1,252,778	\$ 228,459	\$ 449,102	\$ 155,504	\$ 1,161,685	\$ 616,192

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
Travel and transportation	691	12,113	132,695	40,246	18,489	58,735	191,430
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
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, software 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	-	-	156,419	-	-	-	156,419
Total expense before depreciation and amortization	55,798	846,161	4,517,500	766,368	544,710	1,311,078	5,828,578
Depreciation and amortization	5,369	42,790	296,338	1,598	621	2,219	298,557
TOTAL	\$ 61,167	\$ 888,951	\$ 4,813,838	\$ 767,966	\$ 545,331	\$ 1,313,297	\$ 6,127,135

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 4,039,352	\$ 2,454,527
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	335,753	298,557
Loss on write-off of obsolete intangible assets	25,010	9,372
Gain on disposal of property and equipment	(19,534)	-
Receipt of donated securities	-	(5,078)
Proceeds from the sale of donated securities	-	5,311
Realized gain on sale of donated securities	-	(233)
Unrealized loss (gain) on investments	823	(23,046)
(Increase) decrease in:		
Grants and other receivables	(443,152)	374,249
Inventory	9,296	(9,296)
Prepaid expenses and other assets	29,020	(174,038)
Security deposits	8,917	(4,273)
(Decrease) increase in:		
Accounts payable and accrued liabilities	(103,260)	74,369
Refundable advances	64,831	-
Net cash provided by operating activities	<u>3,947,056</u>	<u>3,000,421</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,115,898)	(1,662,748)
Purchases of property and equipment	(59,743)	(191,960)
Proceeds from sales of property and equipment	19,778	-
Payments for construction in progress	(518,481)	(553,779)
Payments made to acquire intangible assets	(8,079)	-
Loan proceeds disbursed to SACCO	-	(79,483)
Repayment of loans from SACCO	79,483	-
Proceeds from PPP loan	89,879	-
Net cash used by investing activities	<u>(1,513,061)</u>	<u>(2,487,970)</u>
Net increase in cash and cash equivalents	2,433,995	512,451
Cash and cash equivalents at beginning of year	<u>4,315,534</u>	<u>3,803,083</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,749,529</u>	<u>\$ 4,315,534</u>
SUPPLEMENTAL INFORMATION:		
Transfer of Assets from Construction in Progress to Buildings and Improvements	<u>\$ 803,150</u>	<u>\$ 238,568</u>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

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, 2020 AND 2019

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 \$277,857 and \$78,658 in cash and cash equivalents in a financial institution (and also on hand) in Kenya as of December 31, 2020 and 2019, respectively. The majority of these funds held 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 \$5,520,120 and \$4,691,495 as of December 31, 2020 and 2019, respectively. Depreciation and amortization expense totaled \$335,753 and \$298,557 during the years ended December 31, 2020 and 2019, 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.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019

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

Intangible assets -

Intangible assets include patents pending approval. Upon approval, the useful life will be determined, and amortization will commence. Intangible assets deemed obsolete are written-off during the reporting period those assets are deemed obsolete. During the year ended December 31, 2020, all intangible assets acquired were deemed obsolete and accordingly written-off.

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, 2020 and 2019.

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, 2020 and 2019, 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. Contributions and grants are recognized in the appropriate category of net assets in the period received. SHOFCO performs an analysis of each award to determine if the revenue streams follow the contribution rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal under ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

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 presented as net assets with donor restrictions in the accompanying financial statements.

Awards qualifying as conditional contributions contain a right of return or right of release from obligation provision and a defined barrier (or barriers), and the entity has limited discretion over how funds transferred should be spent.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Revenue recognition (continued) -

Accordingly, revenue is recognized when the condition or conditions are satisfied (when the related barrier has been overcome; generally, when qualifying expenditures are incurred); these transactions are nonreciprocal and classified as conditional, and are recognized as contributions when the revenue becomes unconditional. At a minimum, SHOFCO considers any awards from governments to be conditional assistance, and accordingly have been recognized in the accompanying financial statements as revenue (without donor restrictions) at such time when the conditions have been met. Funds received in advance of the incurrence of qualifying expenditures (under conditional awards) are recorded as refundable advances; total refundable advances recognized in the accompanying financial statements as of December 31, 2020 aggregated \$64,831. Unrecognized conditional assistance awards as of December 31, 2020 and 2019 totaled approximately \$3,967,000 and \$8,313,000, respectively.

Revenue classified as exchange transactions follow ASU 2014-09, *Revenue from Contracts With Customers*, and is recorded when the performance obligations are met; the revenue is recognized as "without donor restrictions" and the transaction price is based on the criteria stipulated in the agreements. For Project Income, recognition of revenue occurs at the point in time when the sale is transacted (and invoiced to customers). Any funds received in advance of revenue recognition are recorded as deferred revenue.

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, professional 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.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

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

Functional allocation of expenses (continued) -

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.

Investment 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.

Economic uncertainties -

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.

New accounting pronouncement (not yet adopted) -

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosure of key information about leasing arrangements. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still 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.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

2. INVESTMENTS

Investments consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>		<u>2019</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	\$ <u>8,454,122</u>	\$ <u>8,465,170</u>	\$ <u>7,338,224</u>	\$ <u>7,350,095</u>

Included in investment income are the following during the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Interest and dividends (net of management fees)	\$ 109,034	\$ 174,507
Unrealized (loss) gain on investments	(823)	23,046
Realized gain on sales of donated investments	-	233
TOTAL INVESTMENT INCOME, NET	\$ <u>108,211</u>	\$ <u>197,786</u>

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 4,700 members, and approximately 7% 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 year as SACCO's operations continue to develop.
- Loan capital to support cashflow needs. SACCO has repaid its loan as of December 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 2019, SHOFCO provided SACCO 8,000,000 Kenyan Shillings (\$79,483) of loan capital (the total balance was unpaid as of December 31, 2019). During the year ended December 31, 2020, SACCO repaid the entire balance in full. SHOFCO did not provide SACCO any additional loan capital during the year ended 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. Accordingly, the financial statements of SHOFCO and SACCO are not consolidated for financial statement reporting purposes.

4. LOAN PAYABLE

On May 4, 2020, SHOFCO received loan proceeds in the amount of \$89,297 under the Paycheck Protection Program. The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note with a deferral of payments for the first six months. 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.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

4. LOAN PAYABLE (Continued)

SHOFCO intends to use the proceeds for purposes consistent with the Paycheck Protection Program and believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan.

Subsequent to December 31, 2020, the full amount of the loan was forgiven (principal and interest totaling \$89,879), and accordingly, SHOFCO will record revenue from debt extinguishment during the year ending December 31, 2021.

5. 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, 2020 and 2019, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Undesignated net assets	\$ 15,746,852	\$ 12,192,953
Board designated net assets	<u>750,000</u>	<u>750,000</u>
TOTAL NET ASSETS WITHOUT RESTRICTIONS	<u>\$ 16,496,852</u>	<u>\$ 12,942,953</u>

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Program	\$ 3,563,397	\$ 2,977,944
Time restricted	<u>375,000</u>	<u>475,000</u>
TOTAL NET ASSETS WITH RESTRICTIONS	<u>\$ 3,938,397</u>	<u>\$ 3,452,944</u>

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:

	<u>2020</u>	<u>2019</u>
Program	\$ 7,223,212	\$ 3,297,589
Passage of time	<u>100,000</u>	<u>293,183</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 7,323,212</u>	<u>\$ 3,590,772</u>

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

7. 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, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 6,749,529	\$ 4,315,534
Investments	8,465,170	7,350,095
Grants and other receivables	<u>1,134,396</u>	<u>691,244</u>
Subtotal financial assets	16,349,095	12,356,873
Less: Amounts unavailable for general expenditures within one year due to donor's restriction	(3,563,397)	(2,977,944)
Less: Amounts unavailable to management without Board approval: Board designated Shining Hope Fund	<u>(750,000)</u>	<u>(750,000)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 12,035,698</u>	<u>\$ 8,628,929</u>

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, 2020 and 2019, SHOFCO has financial assets equal to approximately 15 and 17 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.

8. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2020 and 2019, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Donated office space	\$ 14,817	\$ 41,322
Donated program materials and equipment	473,266	16,794
Donated consulting fees	50,000	-
Donated legal services	<u>884</u>	<u>23,229</u>
TOTAL IN-KIND CONTRIBUTIONS	<u>\$ 538,967</u>	<u>\$ 81,345</u>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020 AND 2019

9. 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, 2020 and 2019, SHOFCO received substantial discounted rent from this landlord, which is recorded as an in-kind contribution (and 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 193,500 (roughly \$1,950) as of the final year of the agreement.

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, 2020 and 2019 totaled \$173,255 and \$164,554, respectively.

Future minimum lease payments required during 2021 (under the Kenya office lease) total \$29,000.

10. 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 participation. 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, 2020 and 2019 totaled \$18,553 and \$17,670, respectively.

11. 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.

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

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019**

11. FAIR VALUE MEASUREMENT (Continued)

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, 2020 and 2019.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by SHOFCO's are open-end mutual funds that are registered with the SEC. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by SHOFCO's are deemed to be actively traded.

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2020:

	Level 1	Level 2	Level 3	Total
Asset Class:				
Mutual Funds	\$ <u>8,465,170</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>8,465,170</u>

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2019:

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

12. SUBSEQUENT EVENTS

In preparing these financial statements, SHOFCO has evaluated events and transactions for potential recognition or disclosure through June 24, 2021, the date the financial statements were issued.