

FINANCIAL STATEMENTS



Shining Hope
for Communities

**FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021**

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

Opinion

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, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SHOFCO as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SHOFCO and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SHOFCO's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

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The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 SHOFCO's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SHOFCO's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

June 22, 2023

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2022 AND 2021

ASSETS		2022	2021
CURRENT ASSETS			
Cash and cash equivalents		\$ 30,725,871	\$ 22,954,001
Investments		11,562,879	11,461,572
Grants and other receivables		2,838,584	1,566,864
Prepaid expenses and other assets		<u>193,644</u>	<u>159,496</u>
Total current assets		<u>45,320,978</u>	<u>36,141,933</u>
PROPERTY AND EQUIPMENT			
Land		572,271	428,058
Buildings and improvements		3,247,127	2,833,546
Program equipment		909,854	838,161
Water supply infrastructure		1,631,719	1,574,594
Software		96,242	68,742
Vehicles		<u>206,226</u>	<u>239,427</u>
		6,663,439	5,982,528
Less: Accumulated depreciation and amortization		<u>(1,986,568)</u>	<u>(1,663,551)</u>
Net property and equipment		<u>4,676,871</u>	<u>4,318,977</u>
NONCURRENT ASSETS			
Security deposits		10,675	6,750
Construction in progress		743,326	188,011
Grants and other receivables, net		<u>2,466,439</u>	<u>2,067,410</u>
Total noncurrent assets		<u>3,220,440</u>	<u>2,262,171</u>
TOTAL ASSETS		<u>\$ 53,218,289</u>	<u>\$ 42,723,081</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities		\$ 344,200	\$ 227,855
Refundable advance		<u>11,306,532</u>	<u>-</u>
Total liabilities		<u>11,650,732</u>	<u>227,855</u>
NET ASSETS			
Without donor restrictions		32,932,827	36,031,925
With donor restrictions		<u>8,634,730</u>	<u>6,463,301</u>
Total net assets		<u>41,567,557</u>	<u>42,495,226</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 53,218,289</u>	<u>\$ 42,723,081</u>

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Foundation grants	\$ 313,553	\$ 5,819,292	\$ 6,132,845
Individual contributions	2,116,310	31,132	2,147,442
Corporate contributions	70,500	-	70,500
Project income	52,784	-	52,784
In-kind contributions	8,676	-	8,676
Investment income, net	131,132	-	131,132
Loss on disposal of fixed assets	(8,253)	-	(8,253)
Currency gain	2,176	-	2,176
Net assets released from donor restrictions	<u>3,678,995</u>	<u>(3,678,995)</u>	<u>-</u>
Total support and revenue	<u>6,365,873</u>	<u>2,171,429</u>	<u>8,537,302</u>
EXPENSES			
Program Services:			
Health	1,253,551	-	1,253,551
WASH	782,398	-	782,398
Essential Services	497,871	-	497,871
Sustainable Livelihoods	548,729	-	548,729
Girls Leadership and Education	1,357,752	-	1,357,752
SUN	2,341,303	-	2,341,303
SACCO	97,170	-	97,170
Kenya Program Operations	<u>1,085,963</u>	<u>-</u>	<u>1,085,963</u>
Total program services	<u>7,964,737</u>	<u>-</u>	<u>7,964,737</u>
Supporting Services:			
General and Administrative	959,139	-	959,139
Development	<u>541,095</u>	<u>-</u>	<u>541,095</u>
Total supporting services	<u>1,500,234</u>	<u>-</u>	<u>1,500,234</u>
Total expenses	<u>9,464,971</u>	<u>-</u>	<u>9,464,971</u>
Changes in net assets	(3,099,098)	2,171,429	(927,669)
Net assets at beginning of year	<u>36,031,925</u>	<u>6,463,301</u>	<u>42,495,226</u>
NET ASSETS AT END OF YEAR	<u>\$ 32,932,827</u>	<u>\$ 8,634,730</u>	<u>\$ 41,567,557</u>

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Foundation grants	\$ 20,804,960	\$ 4,209,131	\$ 25,014,091
Individual contributions	2,817,846	654,835	3,472,681
Corporate contributions	1,169,837	634,916	1,804,753
Project income	42,855	-	42,855
In-kind contributions	12,206	-	12,206
Investment income, net	5,767	-	5,767
Loss on disposal of assets	(5,333)	-	(5,333)
Currency loss	(4,685)	-	(4,685)
Net assets released from donor restrictions	<u>2,973,978</u>	<u>(2,973,978)</u>	<u>-</u>
Total support and revenue	<u>27,817,431</u>	<u>2,524,904</u>	<u>30,342,335</u>
EXPENSES			
Program Services:			
Health	1,269,171	-	1,269,171
WASH	349,633	-	349,633
Essential Services	411,646	-	411,646
Sustainable Livelihoods	446,298	-	446,298
Girls Leadership and Education	1,056,926	-	1,056,926
SUN	2,281,817	-	2,281,817
SACCO	152,875	-	152,875
Kenya Program Operations	<u>1,093,818</u>	<u>-</u>	<u>1,093,818</u>
Total program services	<u>7,062,184</u>	<u>-</u>	<u>7,062,184</u>
Supporting Services:			
General and Administrative	764,164	-	764,164
Development	<u>545,889</u>	<u>-</u>	<u>545,889</u>
Total supporting services	<u>1,310,053</u>	<u>-</u>	<u>1,310,053</u>
Total expenses	<u>8,372,237</u>	<u>-</u>	<u>8,372,237</u>
Changes in net assets before other item	19,445,194	2,524,904	21,970,098
OTHER ITEM			
Extinguishment of debt	<u>89,879</u>	<u>-</u>	<u>89,879</u>
Changes in net assets	19,535,073	2,524,904	22,059,977
Net assets at beginning of year	<u>16,496,852</u>	<u>3,938,397</u>	<u>20,435,249</u>
NET ASSETS AT END OF YEAR	<u>\$ 36,031,925</u>	<u>\$ 6,463,301</u>	<u>\$ 42,495,226</u>

SHINING HOPE FOR COMMUNITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	Program Services					
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	SUN
Salaries with benefits and taxes	\$ 477,736	\$ 176,277	\$ 195,282	\$ 154,306	\$ 744,398	\$ 1,110,577
Professional fees	89,908	259,333	30,472	25,295	73,050	144,844
Program supplies	137,202	54,699	93,700	26,656	189,445	183,601
Service fees	275,649	52,351	58,273	59,820	31,954	178,362
Program equipment, software and rentals	20,732	10,659	13,030	6,657	37,742	164,798
Travel and transportation	11,763	5,549	50,271	50,737	65,509	86,717
Scholarships	-	-	-	163,964	44,717	55,515
Repairs and maintenance	9,515	21,891	2,375	431	416	57,996
Program food	11,886	1,958	13,048	5,111	34,613	73,670
Rent	11,858	3,985	4,959	9,029	10,444	80,884
Events and training	23,807	22,042	8,534	3,260	24,290	16,335
Medical supplies	123,682	-	340	26	10,069	440
Telecom and communications	4,139	1,650	7,497	4,012	14,848	35,069
Miscellaneous	8,011	5,556	2,364	34,911	4,063	40,335
Marketing and promotions	178	1,303	124	74	312	52,463
Utilities	742	5,521	100	-	687	4,347
Bank charges	750	381	713	266	726	1,764
Printing	192	257	766	79	411	430
Uniforms	81	-	-	516	5,367	373
Grants to other organizations	-	-	10,109	-	-	-
Total expense before depreciation and amortization	1,207,831	623,412	491,957	545,150	1,293,061	2,288,520
Depreciation and amortization	45,720	158,986	5,914	3,579	64,691	52,783
TOTAL	\$ 1,253,551	\$ 782,398	\$ 497,871	\$ 548,729	\$ 1,357,752	\$ 2,341,303

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022

	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	\$ 73,271	\$ 402,106	\$ 3,333,953	\$ 513,001	\$ 288,097	\$ 801,098	\$ 4,135,051
Professional fees	7,071	26,674	656,647	317,099	187,707	504,806	1,161,453
Program supplies	407	89,356	775,066	435	119	554	775,620
Service fees	713	60,852	717,974	20,959	6,469	27,428	745,402
Program equipment, software and rentals	333	83,084	337,035	18,690	22,768	41,458	378,493
Travel and transportation	2,173	28,742	301,461	10,292	9,429	19,721	321,182
Scholarships	-	-	264,196	-	-	-	264,196
Repairs and maintenance	43	110,263	202,930	54	-	54	202,984
Program food	209	52,420	192,915	-	579	579	193,494
Rent	495	7,533	129,187	35,033	8,102	43,135	172,322
Events and training	5,785	44,938	148,991	-	1,225	1,225	150,216
Medical supplies	-	1,081	135,638	-	-	-	135,638
Telecom and communications	19	46,566	113,800	120	193	313	114,113
Miscellaneous	166	5,861	101,267	11,748	-	11,748	113,015
Marketing and promotions	13	1,425	55,892	928	16,035	16,963	72,855
Utilities	-	43,704	55,101	-	-	-	55,101
Bank charges	47	17,884	22,531	3,334	-	3,334	25,865
Printing	-	14,966	17,101	12	163	175	17,276
Uniforms	-	5,505	11,842	-	-	-	11,842
Grants to other organizations	-	-	10,109	-	-	-	10,109
Total expense before depreciation and amortization	90,745	1,042,960	7,583,636	931,705	540,886	1,472,591	9,056,227
Depreciation and amortization	6,425	43,003	381,101	27,434	209	27,643	408,744
TOTAL	\$ 97,170	\$ 1,085,963	\$ 7,964,737	\$ 959,139	\$ 541,095	\$ 1,500,234	\$ 9,464,971

SHINING HOPE FOR COMMUNITIES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	Program Services					
	Health	WASH	Essential Services	Sustainable Livelihoods	Girls Leadership and Education	SUN
Salaries with benefits and taxes	\$ 433,069	\$ 57,861	\$ 177,717	\$ 85,279	\$ 584,763	\$ 593,380
Program supplies	114,121	40,237	121,218	61,918	158,290	701,827
Professional fees	77,727	20,159	20,952	21,533	66,087	136,627
Service fees	289,572	44,764	8,987	68,182	23,631	179,350
Program equipment, software and rentals	33,609	12,819	23,604	13,667	37,841	98,442
Scholarships	4,771	1,331	1,545	129,010	20,917	132,298
Travel and transportation	15,964	6,353	24,494	9,449	15,966	91,803
Medical supplies	166,120	-	4	-	319	28
Repairs and maintenance	52,033	8,075	1,621	386	32,726	16,477
Rent	7,293	1,282	1,848	5,011	11,951	68,963
Utilities	45	-	446	28	483	50,649
Telecom and communications	4,736	1,420	5,661	1,791	3,163	43,107
Grants to other organizations	-	-	3,009	39,397	-	-
Program food	5,795	304	7,603	7,351	18,645	35,628
Grant to individuals	-	-	-	-	-	66,465
Marketing and promotions	4,437	535	586	317	797	30,861
Bank charges	1,567	384	792	469	1,207	2,527
Printing	1,447	23	361	44	2,612	6,776
Events and training	-	-	4,436	-	2,625	7,754
Miscellaneous	407	(62)	591	(76)	1,016	3,721
Uniforms	1,385	-	-	-	1,395	670
Total expense before depreciation and amortization	1,214,098	195,485	405,475	443,756	984,434	2,267,353
Depreciation and amortization	55,073	154,148	6,171	2,542	72,492	14,464
TOTAL	\$ 1,269,171	\$ 349,633	\$ 411,646	\$ 446,298	\$ 1,056,926	\$ 2,281,817

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021

	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	\$ 65,432	\$ 575,810	\$ 2,573,311	\$ 400,385	\$ 285,990	\$ 686,375	\$ 3,259,686
Program supplies	961	21,043	1,219,615	9,114	6,510	15,624	1,235,239
Professional fees	7,610	45,664	396,359	258,818	184,870	443,688	840,047
Service fees	2,485	50,192	667,163	6,127	4,376	10,503	677,666
Program equipment, software and rentals	3,531	106,113	329,626	18,138	12,956	31,094	360,720
Scholarships	575	-	290,447	-	-	-	290,447
Travel and transportation	1,047	30,879	195,955	24,591	17,565	42,156	238,111
Medical supplies	-	-	166,471	-	-	-	166,471
Repairs and maintenance	4,505	44,964	160,787	306	219	525	161,312
Rent	554	10,387	107,289	18,826	13,447	32,273	139,562
Utilities	-	77,631	129,282	-	-	-	129,282
Telecom and communications	242	33,754	93,874	8,223	5,874	14,097	107,971
Grants to other organizations	59,278	-	101,684	-	-	-	101,684
Program food	424	3,645	79,395	497	355	852	80,247
Grant to individuals	-	-	66,465	-	-	-	66,465
Marketing and promotions	112	2,359	40,004	3,813	2,724	6,537	46,541
Bank charges	166	14,612	21,724	5,636	4,026	9,662	31,386
Printing	464	9,757	21,484	332	237	569	22,053
Events and training	-	439	15,254	-	-	-	15,254
Miscellaneous	(27)	1,218	6,788	(995)	(655)	(1,650)	5,138
Uniforms	-	594	4,044	-	-	-	4,044
Total expense before depreciation and amortization	147,359	1,029,061	6,687,021	753,811	538,494	1,292,305	7,979,326
Depreciation and amortization	5,516	64,757	375,163	10,353	7,395	17,748	392,911
TOTAL	\$ 152,875	\$ 1,093,818	\$ 7,062,184	\$ 764,164	\$ 545,889	\$ 1,310,053	\$ 8,372,237

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (927,669)	\$ 22,059,977
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	408,744	392,911
Loss on disposal of property and equipment	8,253	5,333
Change in discount on long-term receivables	98,371	45,710
Extinguishment of debt	-	(89,879)
Unrealized loss on investments	22,565	42,811
(Increase) decrease in:		
Grants and other receivables	(1,769,120)	(2,545,588)
Prepaid expenses and other assets	(34,148)	7,592
Security deposits	(3,925)	14,921
Increase (decrease) in:		
Accounts payable and accrued liabilities	116,345	(89,570)
Refundable advance	<u>11,306,532</u>	<u>(64,831)</u>
Net cash provided by operating activities	<u>9,225,948</u>	<u>19,779,387</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(123,872)	(3,039,213)
Purchases of property and equipment	(591,730)	(367,561)
Payments for construction in progress	<u>(738,476)</u>	<u>(168,141)</u>
Net cash used by investing activities	<u>(1,454,078)</u>	<u>(3,574,915)</u>
Net increase in cash and cash equivalents	7,771,870	16,204,472
Cash and cash equivalents at beginning of year	<u>22,954,001</u>	<u>6,749,529</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 30,725,871</u>	<u>\$ 22,954,001</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Transfer of Assets from Construction in Progress to Buildings and Improvements	<u>\$ 169,673</u>	<u>\$ 94,872</u>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022 AND 2021

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*. 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 the year ended December 31, 2022, SHOFCO adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

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.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Cash and cash equivalents (continued) -

SHOFCO maintained \$214,582 and \$837,602 in cash and cash equivalents in a financial institution (and also on hand) in Kenya as of December 31, 2022 and 2021, 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. Receivables that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in revenue. Management considers all amounts to be fully collectable. 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, excluding construction in progress, aggregated \$6,644,324 and \$5,847,478 as of December 31, 2022 and 2021, respectively. Depreciation and amortization expense totaled \$408,744 and \$392,911, during the years ended December 31, 2022 and 2021, respectively.

SHOFCO has a variety of property and equipment primarily located in Kenya to assist with program delivery. Land and buildings include spaces and structures maintained to provide space for programs. Water supply infrastructure includes water treatment tanks and equipment for provision of clean water to communities. Program equipment includes computer and health care equipment. Vehicles are used for transportation of staff and communities served.

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, 2022 AND 2021

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, 2022 and 2021.

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, 2022 and 2021, 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. 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, 2022 aggregated \$11,306,532 (none as of December 31, 2021).

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

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

Revenue recognition (continued) -

Unrecognized conditional assistance awards as of December 31, 2022 and 2021 totaled approximately \$63,300,000 and \$4,024,000, 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 and is recorded as revenue and rent expense in the period in which the rent is used by SHOFCO. SHOFCO values the donated rent by comparing the cost of the space as noted in the lease agreement to the amount paid by the SHOFCO. There are no restrictions on the in-kind contributions.

SHOFCO received the following in-kind contributions during the years ending December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Rent	\$ <u>8,676</u>	\$ <u>12,206</u>

The following programs have benefited from these in-kind contributions:

	<u>2022</u>	<u>2021</u>
Health	\$ 276	\$ 638
WASH	-	112
Essential Services	122	162
Sustainable Livelihoods	314	438
Girls Leadership and Education	178	1,045
SUN	3,472	6,031
SACCO	-	48
Kenya Program Operations	218	908
General and Administrative	3,689	1,647
Development	<u>407</u>	<u>1,177</u>
TOTAL PROGRAMS BENEFITED	\$ <u>8,676</u>	\$ <u>12,206</u>

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

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

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.

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.

New accounting pronouncement not yet adopted -

Accounting Standard Update (ASU) 2016-13, *Financial Instruments – Credit Losses* (Topic 326), replaces the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The ASU is effective for SHOFCO for the year ending December 31, 2023. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach.

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, 2022 AND 2021**

2. INVESTMENTS AND 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.

Following is a description of the valuation methodology used for investments measured at fair value. There were no transfers between levels in the fair value hierarchy during the years ended December 31, 2022 and 2021. Transfers between levels are recorded at the end of the reporting period, if applicable. There have been no changes in the methodologies used as of December 31, 2022 and 2021.

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

SHOFCO's investments were held in one fixed income mutual fund as of December 31, 2022 and 2021.

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Fixed Income Mutual Fund	\$ <u>11,562,879</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,562,879</u>

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class:				
Fixed Income Mutual Fund	\$ <u>11,461,572</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>11,461,572</u>

Included in investment income are the following:

	<u>2022</u>	<u>2021</u>
Interest and dividends (net of management fees)	\$ 153,697	\$ 48,578
Unrealized loss on investments	<u>(22,565)</u>	<u>(42,811)</u>
TOTAL INVESTMENT INCOME, NET	\$ <u>131,132</u>	\$ <u>5,767</u>

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

3. GRANTS AND OTHER RECEIVABLES

As of December 31, 2022 and 2021, contributors to SHOFCO have made written promises to give of which \$5,449,104 and \$3,679,984, respectively, has yet to be received. Grants and other receivables due in more than one year have been recorded at the present value of the estimated cash flows, using discount rates ranging from 0.73% to 4.43%.

Grants and other receivables are due as follows at December 31, 2022 and 2021:

	2022	2021
Less than one year	\$ 2,838,584	\$ 1,566,864
One to five years	2,610,520	2,113,120
Total	5,449,104	3,679,984
Less: Allowance to discount balance to present value	(144,081)	(45,710)
GRANTS AND OTHER RECEIVABLES	<u>\$ 5,305,023</u>	<u>\$ 3,634,274</u>

4. LOAN PAYABLE

On May 4, 2020, SHOFCO received loan proceeds in the amount of \$89,879 under the Paycheck Protection Program (PPP). Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the loan proceeds were to be used for certain qualifying expenditures within a 24-week period to ultimately be forgiven by the Small Business Administration (SBA). During the year ended December 31, 2021, SHOFCO expended and tracked the PPP funds for purposes outlined in the CARES Act guidance and met all conditions set forth for full forgiveness. SHOFCO received notification that the total amount of the PPP loan was forgiven by the SBA on March 9, 2021; accordingly, SHOFCO recorded revenue from extinguishment of debt (presented as an "Other Item" in the accompanying Statement of Activities and Changes in Net Assets) during the year ended 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, 2022 and 2021, 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, 2022 and 2021:

	2022	2021
Undesignated net assets	\$ 32,182,827	\$ 35,281,925
Board designated net assets	750,000	750,000
TOTAL NET ASSETS WITHOUT RESTRICTIONS	<u>\$ 32,932,827</u>	<u>\$ 36,031,925</u>

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2022 and 2021:

	2022	2021
Program	\$ 8,534,730	\$ 6,088,301
Time restricted	100,000	375,000
TOTAL NET ASSETS WITH RESTRICTIONS	<u>\$ 8,634,730</u>	<u>\$ 6,463,301</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:

	2022	2021
Program	\$ 3,403,995	\$ 2,873,978
Passage of time	275,000	100,000
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 3,678,995</u>	<u>\$ 2,973,978</u>

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, 2022 and 2021 were as follows:

	2022	2021
Cash and cash equivalents	\$ 30,725,871	\$ 22,954,001
Investments	11,562,879	11,461,572
Grants and other receivables	2,838,584	1,566,864
Subtotal financial assets	45,127,334	35,982,437
Less: Amounts unavailable for general expenditures within one year due to donor's restriction	(8,534,730)	(6,088,301)
Less: Amounts unavailable to management without Board approval: Board designated Shining Hope Fund	(750,000)	(750,000)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 35,842,604</u>	<u>\$ 29,144,136</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.

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, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

7. LIQUIDITY AND AVAILABILITY (Continued)

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. 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 60 days notice. During the years ended December 31, 2022 and 2021, 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.

Effective November 1, 2019, SHOFCO entered into a two year lease for office space in Nairobi, Kenya. Upon expiration on October 31, 2021, the lease was extended for another two years, through October 31, 2023. The lease requires monthly payments of KES 300,000 (roughly \$2,675).

Rent expense during the years ended December 31, 2022 and 2021 totaled \$172,322 and \$139,562, respectively.

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

Year Ending December 31, 2023	\$ <u>26,750</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 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, 2022 and 2021 totaled \$19,719 and \$18,489, respectively.

10. CONCENTRATION OF REVENUE

Approximately 47% of SHOFCO's revenue for the year ended December 31, 2022 was derived from two donors. Approximately 66% of SHOFCO's revenue for the year ended December 31, 2021 was derived from a grant from a single donor.

11. SUBSEQUENT EVENTS

In preparing these financial statements, SHOFCO has evaluated events and transactions for potential recognition or disclosure through June 22, 2023, the date the financial statements were issued.