

FINANCIAL STATEMENTS



Shining Hope
for Communities

**FOR THE YEARS ENDED
DECEMBER 31, 2016 AND 2015**

SHINING HOPE FOR COMMUNITIES, INC.

CONTENTS

| | PAGE NO. |
|--|-----------------|
| INDEPENDENT AUDITOR'S REPORT | 2 |
| EXHIBIT A - Statements of Financial Position, as of December 31, 2016 and 2015 | 3 |
| EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2016 and 2015 | 4 - 5 |
| EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2016 | 6 - 7 |
| EXHIBIT D - Statement of Functional Expenses, for the Year Ended December 31, 2015 | 8 - 9 |
| EXHIBIT E - Statements of Cash Flows, for the Years Ended December 31, 2016 and 2015 | 10 |
| NOTES TO FINANCIAL STATEMENTS | 11 - 16 |

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, 2016 and 2015, 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, 2016 and 2015, 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.



October 4, 2017

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016 AND 2015

ASSETS

| | <u>2016</u> | <u>2015</u> |
|-----------------------------------|-----------------------------|----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 7,632,771 | \$ 6,510,029 |
| Investments | 99,535 | - |
| Grants and other receivables | 600,277 | 756,337 |
| Prepaid expenses and other assets | <u>68,705</u> | <u>53,564</u> |
| Total current assets | <u>8,401,288</u> | <u>7,319,930</u> |
| PROPERTY AND EQUIPMENT | | |
| Land | 255,807 | 222,220 |
| Buildings and improvements | 769,570 | 672,623 |
| Furniture and equipment | 455,100 | 385,507 |
| Construction in progress | <u>524,044</u> | <u>-</u> |
| | 2,004,521 | 1,280,350 |
| Less: Accumulated depreciation | <u>(262,732)</u> | <u>(175,471)</u> |
| Net property and equipment | <u>1,741,789</u> | <u>1,104,879</u> |
| NONCURRENT ASSETS | | |
| Security deposits | <u>8,679</u> | <u>8,800</u> |
| TOTAL ASSETS | <u>\$ 10,151,756</u> | <u>\$ 8,433,609</u> |

LIABILITIES AND NET ASSETS

| | | |
|--|-----------------------------|----------------------------|
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ <u>115,169</u> | \$ <u>62,778</u> |
| NET ASSETS | | |
| Unrestricted | 7,060,053 | 5,761,837 |
| Temporarily restricted | <u>2,976,534</u> | <u>2,608,994</u> |
| Total net assets | <u>10,036,587</u> | <u>8,370,831</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 10,151,756</u> | <u>\$ 8,433,609</u> |

SHINING HOPE FOR COMMUNITIES, INC.

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

| | 2016 | | |
|---|----------------------------|-------------------------------|-----------------------------|
| | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE | | | |
| Foundation grants | \$ 1,703,944 | \$ 1,435,481 | \$ 3,139,425 |
| Individual contributions | 1,804,489 | 485,165 | 2,289,654 |
| Corporate contributions | 121,023 | 250,670 | 371,693 |
| Project income | 5,973 | - | 5,973 |
| In-kind contributions | 70,605 | - | 70,605 |
| Investment income | 3,923 | - | 3,923 |
| Net assets released from donor restrictions | <u>1,803,776</u> | <u>(1,803,776)</u> | <u>-</u> |
| Total support and revenue | <u>5,513,733</u> | <u>367,540</u> | <u>5,881,273</u> |
| EXPENSES | | | |
| Program Services: | | | |
| Kenya Program Operations | 465,635 | - | 465,635 |
| Johanna Justin-Jinich Community Clinic | 775,452 | - | 775,452 |
| Kibera School for Girls | 469,320 | - | 469,320 |
| Shining Hope Community Center | 579,101 | - | 579,101 |
| Water and Sanitation Project | 172,543 | - | 172,543 |
| Metrics and Evaluation | 221,539 | - | 221,539 |
| Margaret's Safe Place Project | 24,449 | - | 24,449 |
| Mathare School for Girls | 185,661 | - | 185,661 |
| Mathare Clinic | 363,132 | - | 363,132 |
| Mathare Community Center | <u>125,730</u> | <u>-</u> | <u>125,730</u> |
| Total program services | <u>3,382,562</u> | <u>-</u> | <u>3,382,562</u> |
| Supporting Services: | | | |
| General and Administrative | 274,002 | - | 274,002 |
| Fundraising | <u>558,953</u> | <u>-</u> | <u>558,953</u> |
| Total supporting services | <u>832,955</u> | <u>-</u> | <u>832,955</u> |
| Total expenses | <u>4,215,517</u> | <u>-</u> | <u>4,215,517</u> |
| Changes in net assets | 1,298,216 | 367,540 | 1,665,756 |
| Net assets at beginning of year | <u>5,761,837</u> | <u>2,608,994</u> | <u>8,370,831</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 7,060,053</u> | <u>\$ 2,976,534</u> | <u>\$ 10,036,587</u> |

| 2015 | | |
|---------------------|-----------------------------------|---------------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ 2,553,258 | \$ 822,630 | \$ 3,375,888 |
| 784,168 | 1,358,651 | 2,142,819 |
| 42,492 | 582,681 | 625,173 |
| 16,360 | - | 16,360 |
| 40,344 | 120,300 | 160,644 |
| 504 | - | 504 |
| <u>1,390,201</u> | <u>(1,390,201)</u> | <u>-</u> |
| <u>4,827,327</u> | <u>1,494,061</u> | <u>6,321,388</u> |
| 329,476 | - | 329,476 |
| 528,990 | - | 528,990 |
| 617,258 | - | 617,258 |
| 425,443 | - | 425,443 |
| 140,445 | - | 140,445 |
| 138,164 | - | 138,164 |
| 18,809 | - | 18,809 |
| 107,782 | - | 107,782 |
| 108,046 | - | 108,046 |
| <u>134,516</u> | <u>-</u> | <u>134,516</u> |
| <u>2,548,929</u> | <u>-</u> | <u>2,548,929</u> |
| 207,441 | - | 207,441 |
| <u>188,892</u> | <u>-</u> | <u>188,892</u> |
| <u>396,333</u> | <u>-</u> | <u>396,333</u> |
| <u>2,945,262</u> | <u>-</u> | <u>2,945,262</u> |
| 1,882,065 | 1,494,061 | 3,376,126 |
| <u>3,879,772</u> | <u>1,114,933</u> | <u>4,994,705</u> |
| <u>\$ 5,761,837</u> | <u>\$ 2,608,994</u> | <u>\$ 8,370,831</u> |

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services | | | | | | | |
|-----------------------------------|--------------------------------|---|----------------------------|-------------------------------------|------------------------------------|------------------------------|-------------------------------------|--------------------------------|
| | Kenya Program Operations | Johanna Justin-Jinich Community Clinic | Kibera School for Girls | Shining Hope Community Center | Water and Sanitation Project | Metrics and Evaluation | Margaret's Safe Place Project | Mathare School for Girls |
| Salaries with benefits and taxes | \$ 410,352 | \$ 326,443 | \$ 209,304 | \$ 244,277 | \$ 58,618 | \$ 117,418 | \$ 5,969 | \$ 91,616 |
| Professional fees | - | 31,800 | 37,512 | 27,219 | 36,937 | 7,544 | 1,390 | 11,996 |
| Repair and maintenance | 5,534 | 19,299 | 4,494 | 26,547 | 8,767 | 5,700 | 1,006 | 6,136 |
| Rent | 7,303 | 10,764 | 6,775 | 7,867 | 2,404 | 2,377 | 4,219 | 2,687 |
| Program supplies | - | 34,863 | 23,732 | 41,249 | 7,157 | 16,321 | 2,239 | 13,636 |
| Medical supplies | - | 196,260 | 6,954 | 1,320 | 66 | 58 | 27 | 1,099 |
| Program food | - | 11,430 | 35,050 | 54,566 | 5,109 | 7,002 | 4,550 | 10,604 |
| Staff travel | - | 9,128 | 6,981 | 8,170 | 3,676 | 3,889 | 393 | 4,116 |
| Service fees | 11,797 | 31,141 | 16,309 | 27,914 | 9,384 | 34,170 | 1,621 | 4,709 |
| Classroom supplies | - | - | 31,606 | 6,780 | - | - | - | 226 |
| Bank charges | - | 3,285 | 1,979 | 2,335 | 512 | 448 | 202 | 696 |
| Events and training | - | 9,777 | 20,568 | 9,933 | 1,523 | 3,525 | 469 | 5,882 |
| Transportation | - | 11,184 | 21,713 | 17,998 | 2,731 | 2,118 | 598 | 2,504 |
| Marketing and promotions | - | 7,965 | 3,891 | 5,894 | 1,245 | 1,052 | 356 | 1,412 |
| Printing | - | 149 | 422 | 12,036 | 4 | 316 | 1 | 487 |
| Telecom and communications | - | 4,417 | 3,763 | 7,843 | 1,693 | 5,664 | 323 | 747 |
| Program equipment and rentals | 16,134 | 31,650 | 16,047 | 18,348 | 1,882 | 7,945 | - | 2,152 |
| Utilities | - | 5,480 | 4,012 | 4,356 | 3,910 | 1,547 | 692 | 1,276 |
| Uniforms | - | 297 | 5,986 | 4,272 | 69 | 39 | 18 | 9,884 |
| Miscellaneous | 346 | 508 | 3,801 | 2,424 | 475 | 106 | 96 | 322 |
| In-kind contributions | - | 5,369 | 3,962 | 4,334 | 2,390 | 3,260 | 280 | 2,605 |
| Scholarships | - | - | - | 40,003 | - | - | - | - |
| Total expense before depreciation | 451,466 | 751,209 | 464,861 | 575,685 | 148,552 | 220,499 | 24,449 | 174,792 |
| Depreciation | 14,169 | 24,243 | 4,459 | 3,416 | 23,991 | 1,040 | - | 10,869 |
| TOTAL | \$ 465,635 | \$ 775,452 | \$ 469,320 | \$ 579,101 | \$ 172,543 | \$ 221,539 | \$ 24,449 | \$ 185,661 |

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016

| | Program Services (Continued) | | | Supporting Services | | | |
|-----------------------------------|------------------------------|--------------------------------|------------------------------|-------------------------------|-------------------|---------------------------------|---------------------|
| | Mathare Clinic | Mathare Community Center | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | Total Expenses |
| Salaries with benefits and taxes | \$ 127,829 | \$ 78,938 | \$ 1,670,764 | \$ 146,535 | \$ 415,519 | \$ 562,054 | \$ 2,232,818 |
| Professional fees | 34,402 | 8,850 | 197,650 | 80,588 | 43,266 | 123,854 | 321,504 |
| Repair and maintenance | 14,447 | 4,204 | 96,134 | - | - | - | 96,134 |
| Rent | 1,632 | 2,123 | 48,151 | 4,531 | 11,471 | 16,002 | 64,153 |
| Program supplies | 8,700 | 6,705 | 154,602 | 1,612 | 521 | 2,133 | 156,735 |
| Medical supplies | 127,246 | 88 | 333,118 | - | - | - | 333,118 |
| Program food | 3,897 | 6,002 | 138,210 | 580 | 702 | 1,282 | 139,492 |
| Staff travel | 2,841 | 3,664 | 42,858 | 6,469 | 12,001 | 18,470 | 61,328 |
| Service fees | 16,572 | 2,985 | 156,602 | 2,682 | 5,708 | 8,390 | 164,992 |
| Classroom supplies | - | - | 38,612 | - | - | - | 38,612 |
| Bank charges | 376 | 498 | 10,331 | 1,056 | - | 1,056 | 11,387 |
| Events and training | 3,424 | 2,590 | 57,691 | 2,474 | 5,290 | 7,764 | 65,455 |
| Transportation | 1,921 | 2,762 | 63,529 | 1,538 | 2,682 | 4,220 | 67,749 |
| Marketing and promotions | 1,767 | 1,048 | 24,630 | 4,691 | 23,979 | 28,670 | 53,300 |
| Printing | 979 | 20 | 14,414 | 1,805 | 382 | 2,187 | 16,601 |
| Telecom and communications | 837 | 815 | 26,102 | 1,553 | 2,604 | 4,157 | 30,259 |
| Program equipment and rentals | 7,424 | 658 | 102,240 | 885 | 883 | 1,768 | 104,008 |
| Utilities | 3,975 | 721 | 25,969 | - | - | - | 25,969 |
| Uniforms | 168 | 275 | 21,008 | - | - | - | 21,008 |
| Miscellaneous | 210 | 388 | 8,676 | 1,854 | 2,494 | 4,348 | 13,024 |
| In-kind contributions | 2,298 | 2,396 | 26,894 | 12,260 | 31,451 | 43,711 | 70,605 |
| Scholarships | - | - | 40,003 | - | - | - | 40,003 |
| Total expense before depreciation | 360,945 | 125,730 | 3,298,188 | 271,113 | 558,953 | 830,066 | 4,128,254 |
| Depreciation | 2,187 | - | 84,374 | 2,889 | - | 2,889 | 87,263 |
| TOTAL | \$ 363,132 | \$ 125,730 | \$ 3,382,562 | \$ 274,002 | \$ 558,953 | \$ 832,955 | \$ 4,215,517 |

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Program Services | | | | | | | |
|-----------------------------------|--------------------------------|---|-------------------------------|-------------------------------------|------------------------------------|---------------------------|-------------------------------------|--------------------------------|
| | Kenya Program Operations | Johanna Justin-Jinich Community Clinic | Kibera School for Girls | Shining Hope Community Center | Water and Sanitation Project | Metrics and Evaluation | Margaret's Safe Place Project | Mathare School for Girls |
| Salaries with benefits and taxes | \$ 300,580 | \$ 225,708 | \$ 234,410 | \$ 183,749 | \$ 52,651 | \$ 94,185 | \$ 4,384 | \$ 52,058 |
| Professional fees | - | 34,430 | 74,231 | 24,728 | 16,384 | 4,709 | 1,990 | 7,044 |
| Repair and maintenance | - | 17,823 | 29,266 | 35,521 | 2,201 | 480 | 216 | 9,050 |
| Rent | - | 9,303 | 26,275 | 6,809 | 1,620 | 1,636 | 4,252 | 1,980 |
| Program supplies | - | 25,360 | 31,583 | 33,279 | 2,045 | 7,868 | 1,222 | 5,150 |
| Medical supplies | - | 90,414 | 2,852 | 379 | - | 24 | 53 | 1,235 |
| Program food | - | 2,578 | 38,016 | 33,385 | 541 | 3,865 | 3,810 | 3,687 |
| Staff travel | - | 11,528 | 7,435 | 8,653 | 2,094 | 1,575 | 662 | 2,354 |
| Service fees | - | 13,533 | 24,343 | 12,488 | 23,496 | 7,008 | 1,144 | 1,737 |
| Classroom supplies | - | - | 32,744 | 734 | - | - | - | - |
| Bank charges | - | 4,120 | 7,897 | 2,963 | 599 | 574 | 247 | 831 |
| Events and training | - | 4,184 | 24,695 | 16,098 | 74 | 294 | 34 | 1,772 |
| Transportation | - | 4,523 | 14,804 | 7,292 | 1,312 | 1,239 | 138 | 2,437 |
| Marketing and promotions | - | 11 | 7 | 8 | 2 | 1 | 1 | 2 |
| Staff development | - | 1,919 | 10,003 | 1,407 | 267 | 287 | 129 | 357 |
| Printing | - | 227 | 3,249 | 15,895 | 2 | 1,238 | 2 | 363 |
| Telecom and communications | - | 2,386 | 9,594 | 4,530 | 411 | 1,387 | 128 | 480 |
| Program equipment and rentals | 7,023 | 49,866 | 22,972 | 26,992 | 3,660 | 8,436 | - | 2,084 |
| Utilities | - | 788 | 1,935 | 896 | 7,589 | 114 | 90 | 502 |
| Uniforms | - | 906 | 8,132 | 1,691 | 102 | 49 | 22 | 2,243 |
| Miscellaneous | - | 836 | 4,407 | 3,629 | 387 | 361 | 88 | 140 |
| In-kind contributions | 7,562 | 5,216 | 3,135 | 3,717 | 1,651 | 1,794 | 197 | 1,408 |
| Total expense before depreciation | 315,165 | 505,659 | 611,985 | 424,843 | 117,088 | 137,124 | 18,809 | 96,914 |
| Depreciation | 14,311 | 23,331 | 5,273 | 600 | 23,357 | 1,040 | - | 10,868 |
| TOTAL | \$ 329,476 | \$ 528,990 | \$ 617,258 | \$ 425,443 | \$ 140,445 | \$ 138,164 | \$ 18,809 | \$ 107,782 |

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015

| | Program Services (Continued) | | | Supporting Services | | | |
|-----------------------------------|------------------------------|--------------------------------|---------------------------|-------------------------------|-------------------|---------------------------------|---------------------|
| | Mathare Clinic | Mathare Community Center | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | Total Expenses |
| Salaries with benefits and taxes | \$ 35,561 | \$ 74,447 | \$ 1,257,733 | \$ 106,003 | \$ 155,091 | \$ 261,094 | \$ 1,518,827 |
| Professional fees | 7,440 | 5,431 | 176,387 | 51,362 | 1,660 | 53,022 | 229,409 |
| Repair and maintenance | 1,033 | 6,016 | 101,606 | - | - | - | 101,606 |
| Rent | 1,831 | 1,518 | 55,224 | 5,253 | 1,964 | 7,217 | 62,441 |
| Program supplies | 729 | 5,852 | 113,088 | 1,714 | - | 1,714 | 114,802 |
| Medical supplies | 27,001 | 176 | 122,134 | 240 | - | 240 | 122,374 |
| Program food | 261 | 6,817 | 92,960 | 2,745 | 375 | 3,120 | 96,080 |
| Staff travel | 2,468 | 1,692 | 38,461 | 15,749 | 5,549 | 21,298 | 59,759 |
| Service fees | 741 | 2,469 | 86,959 | (15,146) | 20 | (15,126) | 71,833 |
| Classroom supplies | - | - | 33,478 | - | - | - | 33,478 |
| Bank charges | 818 | 648 | 18,697 | 3,410 | 225 | 3,635 | 22,332 |
| Events and training | 569 | 1,286 | 49,006 | 4,250 | 1,107 | 5,357 | 54,363 |
| Transportation | 675 | 1,595 | 34,015 | 6,533 | 3,439 | 9,972 | 43,987 |
| Marketing and promotions | 2 | 2 | 36 | 9,528 | 13,439 | 22,967 | 23,003 |
| Staff development | 208 | 256 | 14,833 | 925 | 25 | 950 | 15,783 |
| Printing | 535 | 65 | 21,576 | 289 | - | 289 | 21,865 |
| Telecom and communications | 339 | 892 | 20,147 | 1,098 | 73 | 1,171 | 21,318 |
| Program equipment and rentals | 25,015 | 20,198 | 166,246 | 1,362 | - | 1,362 | 167,608 |
| Utilities | 83 | 1,948 | 13,945 | - | - | - | 13,945 |
| Uniforms | 36 | 576 | 13,757 | 5 | 1 | 6 | 13,763 |
| Miscellaneous | 75 | 1,271 | 11,194 | 1,536 | 195 | 1,731 | 12,925 |
| In-kind contributions | 878 | 1,361 | 26,919 | 7,696 | 5,729 | 13,425 | 40,344 |
| Total expense before depreciation | 106,298 | 134,516 | 2,468,401 | 204,552 | 188,892 | 393,444 | 2,861,845 |
| Depreciation | 1,748 | - | 80,528 | 2,889 | - | 2,889 | 83,417 |
| TOTAL | \$ 108,046 | \$ 134,516 | \$ 2,548,929 | \$ 207,441 | \$ 188,892 | \$ 396,333 | \$ 2,945,262 |

See accompanying notes to financial statements.

SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 1,665,756 | \$ 3,376,126 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 87,263 | 83,417 |
| Donated equipment | - | (120,300) |
| Stock donations | (98,009) | - |
| Unrealized gain on investments | (1,526) | - |
| (Increase) decrease in: | | |
| Grants and other receivables | 156,060 | (623,717) |
| Prepaid expenses and other assets | (15,141) | (33,653) |
| Security deposits | 121 | (4,683) |
| Increase in: | | |
| Accounts payable and accrued liabilities | <u>52,389</u> | <u>5,377</u> |
| Net cash provided by operating activities | <u>1,846,913</u> | <u>2,682,567</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of fixed assets | <u>(724,171)</u> | <u>(328,261)</u> |
| Net cash used by investing activities | <u>(724,171)</u> | <u>(328,261)</u> |
| Net increase in cash and cash equivalents | 1,122,742 | 2,354,306 |
| Cash and cash equivalents at beginning of year | <u>6,510,029</u> | <u>4,155,723</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 7,632,771</u> | <u>\$ 6,510,029</u> |

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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 FASB ASC 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

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

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

SHOFCO had approximately \$133,000 and \$31,000 in cash and cash equivalents held at one financial institution (and on hand) in Kenya as of December 31, 2016 and 2015, respectively. The majority of these funds invested in Kenya are uninsured.

Investments -

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

Grants and other receivables -

Grants and other receivables are recorded at their net realizable value, which approximates fair value. Management considers all amounts to be fully collectible within one year. 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 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 purchase is made.

Construction in progress consists of buildings and equipment (purchased with restricted funds) that are not yet completed (remain in temporarily restricted), and thus, have not been placed in service as of December 31, 2016. Accordingly, there was no depreciation taken on these assets during the year ended December 31, 2016. It is management's intention to place these assets in service in the first half of 2017.

Depreciation expense totaled \$87,263 and \$83,417 during the years ended December 31, 2016 and 2015, respectively.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

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

Property and equipment (continued) -

The total amount of property and equipment (including construction in progress) located in Kenya was \$1,990,076 and \$1,265,904 as of December 31, 2016 and 2015, respectively.

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, 2016 and 2015, SHOFCO has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of SHOFCO and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of SHOFCO and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support 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 temporarily restricted net assets in the accompanying financial statements.

Functional currency reporting -

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

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

In-kind contributions -

In-kind contributions consist of donated office space, program equipment and pro-bono legal services. In-kind contributions are recorded at their fair market value as of the date of the gift.

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.

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 pronouncements -

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entity. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported in the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of SHOFCO's financial statements, it is not expected to alter SHOFCO's reported financial position activities.

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

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

New accounting pronouncements (continued) -

SHOFCO has deferred implementation of this new accounting pronouncement until the required implementation dates.

2. INVESTMENTS

Investments consisted of the following at December 31, 2016 and 2015:

| | <u>2016</u> | | <u>2015</u> | |
|-----------------|------------------|-------------------|-------------|-------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Equities | \$ <u>98,009</u> | \$ <u>99,535</u> | \$ <u>-</u> | \$ <u>-</u> |

Included in investment income are the following at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-----------------|---------------|
| Interest and dividends | \$ 2,397 | \$ 504 |
| Unrealized gain on investments | <u>1,526</u> | <u>-</u> |
| TOTAL INVESTMENT INCOME | \$ <u>3,923</u> | \$ <u>504</u> |

3. BOARD DESIGNATED NET ASSETS

The Board of Directors of SHOFCO has designated a portion of the unrestricted net assets 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, 2016 and 2015, unrestricted net assets included \$750,000 of Board-designated net assets.

Following is a reconciliation of SHOFCO's unrestricted net assets:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------------|---------------------|---------------------|
| Undesignated net assets | \$ 6,310,053 | \$ 5,011,837 |
| Board-designated net assets | <u>750,000</u> | <u>750,000</u> |
| TOTAL UNRESTRICTED NET ASSETS | \$ <u>7,060,053</u> | \$ <u>5,761,837</u> |

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| Program | \$ 2,976,534 | \$ 2,605,658 |
| Time restricted | <u>-</u> | <u>3,336</u> |
| TOTAL TEMPORARILY RESTRICTED NET ASSETS | \$ <u>2,976,534</u> | \$ <u>2,608,994</u> |

SHINING HOPE FOR COMMUNITIES, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

4. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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

| | <u>2016</u> | <u>2015</u> |
|--|----------------------------|----------------------------|
| Program | \$ 1,800,440 | \$ 1,386,869 |
| Passage of time | <u>3,336</u> | <u>3,332</u> |
| TOTAL NET ASSETS RELEASED FROM RESTRICTIONS | <u>\$ 1,803,776</u> | <u>\$ 1,390,201</u> |

5. IN-KIND CONTRIBUTIONS

During the years ended December 31, 2016 and 2015, SHOFCO was the beneficiary of donated goods and 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 for the years ended December 31, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|-------------------------|-------------------------|
| Donated rent | \$ 54,675 | \$ 22,425 |
| Donated legal services | <u>15,930</u> | <u>17,919</u> |
| TOTAL IN-KIND CONTRIBUTIONS | <u>\$ 70,605</u> | <u>\$ 40,344</u> |

As of December 31, 2015, SHOFCO received donated equipment totaling \$120,300, and accordingly, SHOFCO recorded this donated equipment in furniture and equipment in the accompanying Statements of Financial Position.

6. 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, 2016 and 2015, SHOFCO received substantial discounted rent from this landlord, which is included in in-kind contributions in the accompanying Statements of Activities and Changes in Net Assets.

SHOFCO currently leases a multi-use building in Nairobi, Kenya, under a two-year lease, which terminates on January 31, 2018. The lease commenced on January 15, 2016 and requires a monthly payment of Ksh 180,000 (roughly \$1,820); effective January 15, 2017 (the start of the second year of the lease), the monthly lease payment will increase by 7.5% (to Ksh 193,500, or roughly \$1,950).

Rent expense for the years ended December 31, 2016 and 2015 totaled \$64,153 and \$62,441, respectively.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

7. RETIREMENT PLAN

SHOFCO provides a 401(k) retirement plan to its employees through an employer defined contribution plan. Employees must be at least twenty one years of age and have worked for six months to be eligible for the employer discretionary contribution. SHOFCO did not, and was not required to, make any contributions to the plan during the years ended December 31, 2016 and 2015.

8. 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 have been no changes in the methodologies used at December 31, 2016 and 2015.

- **Equities** - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, SHOFCO's investments as of December 31, 2016:

| | Level 1 | Level 2 | Level 3 | Total December 31, 2016 |
|---------------------|-----------|---------|---------|-------------------------------|
| Asset Class: | | | | |
| Equities | \$ 99,535 | \$ - | \$ - | \$ 99,535 |

9. SUBSEQUENT EVENTS

In preparing these financial statements, SHOFCO has evaluated events and transactions for potential recognition or disclosure through October 4, 2017, the date the financial statements were issued.