

## **FINANCIAL STATEMENTS**



Shining Hope  
for Communities

**FOR THE YEARS ENDED  
DECEMBER 31, 2017 AND 2016**

**SHINING HOPE FOR COMMUNITIES, INC.**

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## 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, 2017 and 2016, 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, 2017 and 2016, 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.



November 8, 2018

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## SHINING HOPE FOR COMMUNITIES, INC.

STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2017 AND 2016

## ASSETS

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 2,047,488	\$ 7,632,771
Investments	6,091,852	99,535
Grants and other receivables	415,377	600,277
Prepaid expenses and other assets	<u>65,027</u>	<u>68,705</u>
Total current assets	<u>8,619,744</u>	<u>8,401,288</u>
<b>PROPERTY AND EQUIPMENT</b>		
Land	338,596	255,807
Buildings and improvements	1,223,696	769,570
Furniture and equipment	1,242,966	455,100
Construction in progress	<u>951,892</u>	<u>524,044</u>
	3,757,150	2,004,521
Less: Accumulated depreciation	<u>(490,832)</u>	<u>(262,732)</u>
Net property and equipment	<u>3,266,318</u>	<u>1,741,789</u>
<b>NONCURRENT ASSETS</b>		
Security deposits	9,367	8,679
Grants and other receivables, net of current portion	<u>100,000</u>	<u>-</u>
Total noncurrent assets	<u>109,367</u>	<u>8,679</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 11,995,429</u></b>	<b><u>\$ 10,151,756</u></b>

## LIABILITIES AND NET ASSETS

## CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ <u>245,029</u>	\$ <u>115,169</u>
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## NET ASSETS

Unrestricted	8,617,206	7,060,053
Temporarily restricted	<u>3,133,194</u>	<u>2,976,534</u>
Total net assets	<u>11,750,400</u>	<u>10,036,587</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 11,995,429</u></b>	<b><u>\$ 10,151,756</u></b>

**SHINING HOPE FOR COMMUNITIES, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Foundation grants	\$ 1,890,795	\$ 2,517,142	\$ 4,407,937
Individual contributions	1,940,360	755,413	2,695,773
Corporate contributions	43,839	233,696	277,535
Project income	7,696	34,056	41,752
In-kind contributions	51,473	32,783	84,256
Investment income	56,901	-	56,901
Net assets released from donor restrictions	<u>3,416,430</u>	<u>(3,416,430)</u>	<u>-</u>
Total support and revenue	<u>7,407,494</u>	<u>156,660</u>	<u>7,564,154</u>
<b>EXPENSES</b>			
Program Services:			
Kenya Program Operations	642,162	-	642,162
Kenya 2017 Election Reserve	130,912	-	130,912
Johanna Justin-Jinich Community Clinic	1,020,153	-	1,020,153
Kibera School for Girls	838,221	-	838,221
Shining Hope Community Center	796,953	-	796,953
Water and Sanitation Project	345,596	-	345,596
Metrics and Evaluation	170,774	-	170,774
Margaret's Safe Place Project	37,036	-	37,036
Mathare School for Girls	251,428	-	251,428
Mathare Clinic	197,134	-	197,134
Mathare Community Center	406,823	-	406,823
Kenya Expansion	<u>112,857</u>	<u>-</u>	<u>112,857</u>
Total program services	<u>4,950,049</u>	<u>-</u>	<u>4,950,049</u>
Supporting Services:			
General and Administrative	246,788	-	246,788
Fundraising	<u>653,504</u>	<u>-</u>	<u>653,504</u>
Total supporting services	<u>900,292</u>	<u>-</u>	<u>900,292</u>
Total expenses	<u>5,850,341</u>	<u>-</u>	<u>5,850,341</u>
Changes in net assets	1,557,153	156,660	1,713,813
Net assets at beginning of year	<u>7,060,053</u>	<u>2,976,534</u>	<u>10,036,587</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 8,617,206</u></b>	<b><u>\$ 3,133,194</u></b>	<b><u>\$ 11,750,400</u></b>

See accompanying notes to financial statements.

2016		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 1,703,944	\$ 1,435,481	\$ 3,139,425
1,804,489	485,165	2,289,654
121,023	250,670	371,693
5,973	-	5,973
70,605	-	70,605
3,923	-	3,923
<u>1,803,776</u>	<u>(1,803,776)</u>	<u>-</u>
<u>5,513,733</u>	<u>367,540</u>	<u>5,881,273</u>
465,635	-	465,635
-	-	-
775,452	-	775,452
469,320	-	469,320
579,101	-	579,101
172,543	-	172,543
221,539	-	221,539
24,449	-	24,449
185,661	-	185,661
363,132	-	363,132
125,730	-	125,730
<u>-</u>	<u>-</u>	<u>-</u>
<u>3,382,562</u>	<u>-</u>	<u>3,382,562</u>
274,002	-	274,002
<u>558,953</u>	<u>-</u>	<u>558,953</u>
<u>832,955</u>	<u>-</u>	<u>832,955</u>
<u>4,215,517</u>	<u>-</u>	<u>4,215,517</u>
1,298,216	367,540	1,665,756
<u>5,761,837</u>	<u>2,608,994</u>	<u>8,370,831</u>
<u><b>\$ 7,060,053</b></u>	<u><b>\$ 2,976,534</b></u>	<u><b>\$ 10,036,587</b></u>

See accompanying notes to financial statements.

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

**Program Services**

	<b>Kenya Program Operations</b>	<b>Kenya 2017 Election Reserve</b>	<b>Johanna Justin-Jinich Community Clinic</b>	<b>Kibera School for Girls</b>	<b>Shining Hope Community Center</b>	<b>Water and Sanitation Project</b>	<b>Metrics and Evaluation</b>	<b>Margaret's Safe Place Project</b>	<b>Mathare School for Girls</b>
Salaries with benefits and taxes	\$ 549,403	\$ 25,256	\$ 448,515	\$ 326,431	\$ 313,898	\$ 84,124	\$ 117,058	\$ 11,188	\$ 133,074
Professional fees	-	6,001	57,706	70,164	57,183	24,526	9,297	6,011	9,819
Repairs and maintenance	20,385	-	22,191	2,477	11,575	4,905	2,694	830	6,658
Rent	14,014	-	8,477	5,879	5,751	3,931	1,022	3,608	2,098
Program supplies	299	10,829	67,253	42,807	69,122	10,328	6,218	2,473	21,373
Medical supplies	-	-	176,476	3,241	1,044	3	1	1	4,297
Program food	76	8,939	33,318	43,340	61,540	7,906	4,840	4,096	12,712
Staff travel	-	653	4,288	5,200	3,950	2,546	637	359	1,795
Service fees	-	37,928	57,026	33,861	47,313	48,748	9,372	3,533	5,031
Classroom supplies	-	-	6	13,735	268	3	1	1	21,475
Bank charges	-	-	3,332	1,773	3,360	1,209	350	258	413
Events and training	-	26,272	1,641	21,339	2,315	2,153	6,741	376	3,554
Transportation	146	272	18,233	36,322	21,383	4,141	2,109	631	2,822
Marketing and promotions	-	-	3,707	3,725	3,335	1,628	597	330	1,378
Printing	-	-	1,753	1,364	13,619	955	311	180	418
Telecom and communications	-	819	5,763	3,831	8,083	2,252	1,555	304	536
Program equipment and rentals	22,438	13,943	41,264	58,631	45,936	5,820	2,004	1,555	2,649
Utilities	942	-	12,778	6,587	7,612	4,511	2,340	1,005	1,575
Uniforms	-	-	1,918	10,297	11,056	656	406	136	7,870
Miscellaneous	-	-	134	10,957	834	130	1,007	8	31
In-kind contributions	-	-	1,703	12,837	1,794	1,274	301	153	981
Scholarships	-	-	-	-	89,385	-	-	-	-
Loss on disposal of property and equipment	-	-	-	96,647	-	10,679	-	-	-
Total expense before depreciation	607,703	130,912	967,482	811,445	780,356	222,428	168,861	37,036	240,559
Depreciation	34,459	-	52,671	26,776	16,597	123,168	1,913	-	10,869
<b>TOTAL</b>	<b>\$ 642,162</b>	<b>\$ 130,912</b>	<b>\$ 1,020,153</b>	<b>\$ 838,221</b>	<b>\$ 796,953</b>	<b>\$ 345,596</b>	<b>\$ 170,774</b>	<b>\$ 37,036</b>	<b>\$ 251,428</b>

See accompanying notes to financial statements.

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

	Program Services (Continued)				Supporting Services			
	Mathare Clinic	Mathare Community Center	Kenya Expansion	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
Salaries with benefits and taxes	\$ 130,871	\$ 198,421	\$ 66,271	\$ 2,404,510	\$ 150,144	\$ 412,907	\$ 563,051	\$ 2,967,561
Professional fees	5,945	40,188	4,815	291,655	19,073	54,619	73,692	365,347
Repairs and maintenance	4,566	4,120	1,775	82,176	-	-	-	82,176
Rent	2,697	5,343	1,777	54,597	5,679	22,911	28,590	83,187
Program supplies	9,279	26,209	10,719	276,909	331	489	820	277,729
Medical supplies	815	68,019	2	253,899	-	-	-	253,899
Program food	9,631	5,995	2,853	195,246	210	159	369	195,615
Staff travel	1,772	3,065	3,130	27,395	19,577	62,168	81,745	109,140
Service fees	7,184	23,673	3,322	276,991	2,012	27,532	29,544	306,535
Classroom supplies	1	6	1	35,497	-	-	-	35,497
Bank charges	252	1,715	196	12,858	1,400	-	1,400	14,258
Events and training	2,794	979	(318)	67,846	1,611	9,847	11,458	79,304
Transportation	3,740	3,008	822	93,629	251	606	857	94,486
Marketing and promotions	366	2,535	1,003	18,604	7,730	31,940	39,670	58,274
Printing	48	459	50	19,157	161	26	187	19,344
Telecom and communications	1,004	1,302	335	25,784	874	3,527	4,401	30,185
Program equipment and rentals	11,421	10,265	14,642	230,568	7,904	8,170	16,074	246,642
Utilities	1,639	5,880	153	45,022	-	-	-	45,022
Uniforms	435	1,976	82	34,832	-	-	-	34,832
Miscellaneous	58	39	100	13,298	2,751	1,259	4,010	17,308
In-kind contributions	1,064	1,438	963	22,508	22,737	17,344	40,081	62,589
Scholarships	-	-	-	89,385	-	-	-	89,385
Loss on disposal of property and equipment	-	-	-	107,326	-	-	-	107,326
Total expense before depreciation	195,582	404,635	112,693	4,679,692	242,445	653,504	895,949	5,575,641
Depreciation	1,552	2,188	164	270,357	4,343	-	4,343	274,700
<b>TOTAL</b>	<b>\$ 197,134</b>	<b>\$ 406,823</b>	<b>\$ 112,857</b>	<b>\$ 4,950,049</b>	<b>\$ 246,788</b>	<b>\$ 653,504</b>	<b>\$ 900,292</b>	<b>\$ 5,850,341</b>

See accompanying notes to financial statements.

**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
Repairs 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
<b>TOTAL</b>	<b>\$ 465,635</b>	<b>\$ 775,452</b>	<b>\$ 469,320</b>	<b>\$ 579,101</b>	<b>\$ 172,543</b>	<b>\$ 221,539</b>	<b>\$ 24,449</b>	<b>\$ 185,661</b>

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
Repairs 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
<b>TOTAL</b>	<b>\$ 363,132</b>	<b>\$ 125,730</b>	<b>\$ 3,382,562</b>	<b>\$ 274,002</b>	<b>\$ 558,953</b>	<b>\$ 832,955</b>	<b>\$ 4,215,517</b>

See accompanying notes to financial statements.

## SHINING HOPE FOR COMMUNITIES, INC.

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ 1,713,813	\$ 1,665,756
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	274,700	87,263
Loss on disposal of property and equipment	107,326	-
Donations of capital assets	(21,667)	-
Stock donations	(40,083)	(98,009)
Unrealized loss (gain) on investments	7,511	(1,526)
Realized gain on sales of investments	(5,870)	-
Decrease (increase) in:		
Grants and other receivables	84,900	156,060
Prepaid expenses and other assets	3,678	(15,141)
Security deposits	(688)	121
Increase in:		
Accounts payable and accrued liabilities	<u>129,860</u>	<u>52,389</u>
Net cash provided by operating activities	<u>2,253,480</u>	<u>1,846,913</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(1,884,888)	(724,171)
Purchases of investments	(6,057,755)	-
Proceeds from sales of investments	<u>103,880</u>	<u>-</u>
Net cash used by investing activities	<u>(7,838,763)</u>	<u>(724,171)</u>
Net (decrease) increase in cash and cash equivalents	(5,585,283)	1,122,742
Cash and cash equivalents at beginning of year	<u>7,632,771</u>	<u>6,510,029</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 2,047,488</u></b>	<b><u>\$ 7,632,771</u></b>
<b>SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS</b>		
Stock Donations	<b><u>\$ 245,510</u></b>	<b><u>\$ -</u></b>

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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) 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 \$142,604 and \$133,192 in cash and cash equivalents held at one financial institution (and on hand) in Kenya as of December 31, 2017 and 2016, respectively. The majority of these funds invested in Kenya are uninsured.

**Investments -**

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

**Grants and other receivables -**

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

**Property and equipment -**

Property and equipment acquisitions in excess of \$1,000 for equipment and \$5,000 for buildings are capitalized and stated at cost. Property and equipment is depreciated 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.

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, 2017. Accordingly, there was no depreciation taken on these assets during the year ended December 31, 2017. It is management's intention to place these assets in service during 2018.

SHINING HOPE FOR COMMUNITIES, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016

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

Property and equipment (continued) -

Depreciation expense totaled \$274,700 and \$87,263 during the years ended December 31, 2017 and 2016, respectively.

The total amount of property and equipment (including construction in progress) located in Kenya was \$3,742,705 and \$1,990,076 as of December 31, 2017 and 2016, respectively.

Impairment of long-lived assets -

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

Income taxes -

SHOFCO is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. SHOFCO is not a private foundation.

Uncertain tax positions -

For the years ended December 31, 2017 and 2016, 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 support and revenue received without donor-imposed restrictions. These net assets are available for the operations of SHOFCO and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include support and revenue 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.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions 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.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

Functional currency reporting -

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

In-kind contributions -

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

Use of estimates -

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

Functional allocation of expenses -

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

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.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

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

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued Accounting Standard Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. 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 on 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.

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

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

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

**2. INVESTMENTS**

Investments consisted of the following as of December 31, 2017 and 2016:

	<b>2017</b>		<b>2016</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Mutual Funds</b>	<b>\$ 6,097,837</b>	<b>\$ 6,091,852</b>	<b>\$ 98,009</b>	<b>\$ 99,535</b>

Included in investment income are the following during the years ended December 31, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Interest and dividends	\$ 58,542	\$ 2,397
Unrealized (loss) gain on investments	(7,511)	1,526
Realized gain on sales of investments	5,870	-
<b>TOTAL INVESTMENT INCOME</b>	<b>\$ 56,901</b>	<b>\$ 3,923</b>

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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, 2017 and 2016, unrestricted net assets included \$750,000 of Board-designated net assets.

Following is a reconciliation of SHOFCO's unrestricted net assets at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Undesignated net assets	\$ 7,867,206	\$ 6,310,053
Board-designated net assets	<u>750,000</u>	<u>750,000</u>
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b><u>\$ 8,617,206</u></b>	<b><u>\$ 7,060,053</u></b>

**4. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Program	\$ 2,933,194	\$ 2,976,534
Time restricted	<u>200,000</u>	<u>-</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 3,133,194</u></b>	<b><u>\$ 2,976,534</u></b>

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>2017</u>	<u>2016</u>
Program	\$ 3,416,430	\$ 1,800,440
Passage of time	<u>-</u>	<u>3,336</u>
<b>TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS</b>	<b><u>\$ 3,416,430</u></b>	<b><u>\$ 1,803,776</u></b>

**5. IN-KIND CONTRIBUTIONS**

During the years ended December 31, 2017 and 2016, 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.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**5. IN-KIND CONTRIBUTIONS (Continued)**

To properly reflect total program expenses, the following donations have been included in revenue and expense during the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donated office space	\$ 38,700	\$ 54,675
Donated program materials and equipment	32,783	-
Donated legal services	<u>12,773</u>	<u>15,930</u>
<b>TOTAL IN-KIND CONTRIBUTIONS</b>	<b><u>\$ 84,256</u></b>	<b><u>\$ 70,605</u></b>

**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, 2017 and 2016, SHOFCO received substantial discounted rent from this landlord, which is included in in-kind contributions in the accompanying Statements of Activities and Changes in Net Assets.

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

Rent expense during the years ended December 31, 2017 and 2016 totaled \$83,187 and \$64,153, respectively.

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

**Year Ending December 31,**

2018	\$ 23,963
2019	<u>25,760</u>
	<b><u>\$ 49,723</u></b>

**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, 2017 and 2016.

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**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 as of December 31, 2017 and 2016.

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

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

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2016</u>
<b>Asset Class:</b>				
<b>Mutual Funds</b>	<u>\$ 99,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 99,535</u>

**SHINING HOPE FOR COMMUNITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 AND 2016**

**9. SUBSEQUENT EVENTS**

In preparing these financial statements, SHOF CO has evaluated events and transactions for potential recognition or disclosure through November 8, 2018, the date the financial statements were issued.