



FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

MUSTARD SEED COMMUNITIES, INC.

Contents
December 31, 2017 and 2016

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Independent Auditor's Report

To the Board of Directors of
Mustard Seed Communities, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Mustard Seed Communities, Inc. (a Georgia corporation, not for profit) 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, cash flows and functional expenses 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 Mustard Seed Communities, Inc. 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.

Westborough, Massachusetts
April 27, 2018

MUSTARD SEED COMMUNITIES, INC.Statements of Financial Position
December 31, 2017 and 2016

Assets	2017	2016
Current Assets:		
Cash	\$ 1,629,567	\$ 1,933,391
Certificates of deposit	86,666	86,639
Current portion of cash restricted for the Formation Program	285,568	305,000
Current portion of pledges receivable	478,018	156,163
Prepaid expenses and other	90,337	42,193
Total current assets	2,570,156	2,523,386
Cash Restricted for the Formation Program, net of current portion	100,651	100,788
Pledges Receivable for the Formation Program	396,000	312,750
Pledges Receivable - Other, net of current portion and allowance	114,704	87,774
Property and Website, net	28,227	36,238
Total assets	<u>\$ 3,209,738</u>	<u>\$ 3,060,936</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	<u>\$ 24,866</u>	<u>\$ 37,814</u>
Net Assets:		
Unrestricted:		
Operating	742,470	786,095
Property and Website	28,227	36,238
Total unrestricted	770,697	822,333
Temporarily restricted	2,414,175	2,200,789
Total net assets	<u>3,184,872</u>	<u>3,023,122</u>
Total liabilities and net assets	<u>\$ 3,209,738</u>	<u>\$ 3,060,936</u>

MUSTARD SEED COMMUNITIES, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue:						
Special events:						
Event contributions and support	\$ 469,912	\$ -	\$ 469,912	\$ 390,703	\$ -	\$ 390,703
Less - direct expenses	(114,575)	-	(114,575)	(90,326)	-	(90,326)
Net revenues from special events	355,337	-	355,337	300,377	-	300,377
Contributions and support - cash	3,095,104	941,531	4,036,635	3,184,449	1,008,640	4,193,089
Contributions and support - donated	576,463	-	576,463	603,746	-	603,746
Interest and other	6,350	-	6,350	5,470	-	5,470
Net assets released from restrictions	728,145	(728,145)	-	515,166	(515,166)	-
Total support and revenue	4,761,399	213,386	4,974,785	4,609,208	493,474	5,102,682
Operating Expenses:						
Program expenses:						
Grants and aid:						
Cash	3,466,039	-	3,466,039	3,193,890	-	3,193,890
Donated	576,463	-	576,463	603,746	-	603,746
Total grants and aid	4,042,502	-	4,042,502	3,797,636	-	3,797,636
Personnel, related and other	286,486	-	286,486	198,926	-	198,926
Total program expenses	4,328,988	-	4,328,988	3,996,562	-	3,996,562
Administration	234,757	-	234,757	254,856	-	254,856
Fundraising	249,290	-	249,290	207,320	-	207,320
Total operating expenses	4,813,035	-	4,813,035	4,458,738	-	4,458,738
Changes in net assets	(51,636)	213,386	161,750	150,470	493,474	643,944
Net Assets:						
Beginning of year	822,333	2,200,789	3,023,122	671,863	1,707,315	2,379,178
End of Year	\$ 770,697	\$ 2,414,175	\$ 3,184,872	\$ 822,333	\$ 2,200,789	\$ 3,023,122

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 161,750	\$ 643,944
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	13,147	725
Bad debt recoveries	-	(2,683)
Changes in operating assets and liabilities:		
Pledges receivable	(432,035)	(339,358)
Prepaid expenses and other	(48,144)	(27,452)
Accounts payable and accrued expenses	(12,948)	25,183
Net cash provided by (used in) operating activities	<u>(318,230)</u>	<u>300,359</u>
Cash Flows from Investing Activities:		
Maturity of certificates of deposit	86,639	86,614
Purchase of certificates of deposit	(86,666)	(86,639)
(Increase) decrease in restricted cash - Formation Program	19,569	(405,788)
Purchase of property and website	(5,136)	(16,409)
Net cash provided by (used in) investing activities	<u>14,406</u>	<u>(422,222)</u>
Net Change in Cash	(303,824)	(121,863)
Cash:		
Beginning of year	<u>1,933,391</u>	<u>2,055,254</u>
End of year	<u>\$ 1,629,567</u>	<u>\$ 1,933,391</u>

MUSTARD SEED COMMUNITIES, INC.

 Statements of Functional Expenses
 For the Years Ended December 31, 2017 and 2016

	2017				2016			
	Program	Adminis- tration	Fundraising	Total	Program	Adminis- tration	Fundraising	Total
Operating Expenses:								
Personnel and related:								
Salaries and wages	\$ 166,679	\$ 131,871	\$ 81,084	\$ 379,634	\$ 118,991	\$ 125,189	\$ 68,478	\$ 312,658
Payroll taxes	12,606	11,078	7,228	30,912	8,771	10,353	6,213	25,337
Employee benefits	8,129	7,345	3,900	19,374	203	15,913	406	16,522
Recruitment	944	-	-	944	336	-	2,746	3,082
Total personnel and related	<u>188,358</u>	<u>150,294</u>	<u>92,212</u>	<u>430,864</u>	<u>128,301</u>	<u>151,455</u>	<u>77,843</u>	<u>357,599</u>
Grants and aid:								
Cash	3,466,039	-	-	3,466,039	3,193,890	-	-	3,193,890
Donated	576,463	-	-	576,463	603,746	-	-	603,746
Total grants and aid	<u>4,042,502</u>	<u>-</u>	<u>-</u>	<u>4,042,502</u>	<u>3,797,636</u>	<u>-</u>	<u>-</u>	<u>3,797,636</u>
Other:								
Professional fees	15,368	33,941	38,997	88,306	4,411	60,070	24,767	89,248
Donation processing fees	-	6	65,298	65,304	3,520	-	51,200	54,720
Financial and internet fees	23,415	12,101	13,652	49,168	13,864	15,639	17,770	47,273
Printing and publications	4,903	1,017	18,013	23,933	115	1,226	15,691	17,032
Mission trips - other	23,846	-	-	23,846	21,530	-	-	21,530
Travel	18,636	1,545	3,530	23,711	14,468	3,793	2,137	20,398
Occupancy	8,400	4,200	8,400	21,000	8,400	5,745	8,400	22,545
Depreciation	-	13,147	-	13,147	-	725	-	725
Postage	247	3,032	5,312	8,591	23	2,860	5,137	8,020
Insurance	358	7,931	271	8,560	401	6,102	205	6,708
Office and other	262	5,161	1,524	6,947	968	5,718	1,782	8,468
Telephone	2,583	1,039	924	4,546	2,839	1,448	1,545	5,832
Miscellaneous	110	1,343	1,157	2,610	86	75	843	1,004
Total other	<u>98,128</u>	<u>84,463</u>	<u>157,078</u>	<u>339,669</u>	<u>70,625</u>	<u>103,401</u>	<u>129,477</u>	<u>303,503</u>
Total operating expenses	<u>\$ 4,328,988</u>	<u>\$ 234,757</u>	<u>\$ 249,290</u>	<u>\$ 4,813,035</u>	<u>\$ 3,996,562</u>	<u>\$ 254,856</u>	<u>\$ 207,320</u>	<u>\$ 4,458,738</u>

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

Mustard Seed Communities, Inc. (the Organization) is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization was formed to provide financial and spiritual support along with Mustard Seed International (MSC International) for MSC International's locations in Jamaica, Nicaragua, Zimbabwe, Malawi, and the Dominican Republic. MSC International cares for abandoned children with disabilities and HIV/AIDS and operates over twenty outreach programs to help the local communities, including children and families living with HIV/AIDS and pregnant teens.

During 2016, the Organization commenced a campaign to raise funds for the Formation Program. The Formation Program is tasked with sustaining and further developing the spiritual core of the Organization. The Formation Program includes the construction and operation of a Formation Center in Jamaica. The Formation Center will promote vocations and train priests, deacons and sisters who will serve MSC internationally and attend to the pastoral and spiritual needs of the Organization.

The campaign's goal is to raise \$1.6 million to fund capital and operating expenses over a ten-year period. Funds raised during 2017 and 2016 totaled \$1,214,652.

SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting standards and principles established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Unrestricted contributions and support are recorded as revenue when received or unconditionally pledged. Restricted contributions and support are recorded as temporarily restricted revenue and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs associated with purpose restrictions are incurred or time restrictions have lapsed. Donor restricted grants and contributions received and satisfied in the same period are included in unrestricted net assets. All other revenue is recorded when earned or as services are provided.

Bequests

Unconditional promises to give by an estate are included in the accompanying financial statements as contributions revenue in the appropriate net asset category. Bequests are recorded when received or when the amount is known.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions and Support - Donated

Volunteers and other agencies contribute goods, merchandise, and services to the Organization in support of various aspects of its programs. Donated goods consist of products shipped directly to the communities operated by MSC International. Donated merchandise is used in fundraising efforts. These goods, merchandise, and services are reflected in the accompanying financial statements based upon the estimated value assigned to them by the donating volunteers or agencies. Donated securities are recorded as contributions and support at fair value on the date of donation. The Organization has a policy to liquidate donated securities upon receipt.

Special Events

Special events revenue is recorded in the period the event occurs and is shown net of related direct expenses in the accompanying statements of activities and changes in net assets.

Grants and Aid

The Organization reserves the right to exercise variance authority over all grants, and therefore, has no legal liability to pay the balance of any grant. Accordingly, grants and aid are expensed based on predetermined payment schedules. Any grants and aid that are due and not paid as of year-end in accordance with the predetermined payment schedule are recorded as a liability of the Organization.

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Advertising

The Organization expenses advertising costs as incurred. Advertising costs of \$951 and \$1,761 for the years ended December 31, 2017 and 2016, respectively, are included in office and other in the accompanying statements of functional expenses.

Certificates of Deposit

The certificates of deposit (CDs) have initial maturities of eleven months. The CDs at December 31, 2017, matured in January and March 2018, and have an interest rate of 0.03%. The CDs at December 31, 2016, matured in February and April 2017, and had interest rates of 0.03% and 0.05%, respectively.

Restricted Cash

Cash restricted for the Formation Program (see page 6) is restricted for capital and operating grants to this program over a ten-year period. Amounts expected to be disbursed in the next fiscal year are reported as a current asset with the remainder reported in non-current assets.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable and Allowance for Uncollectible Accounts

The allowance for uncollectible accounts is recorded based on management's analysis of specific accounts and the estimate of amounts that may be uncollectible, if any.

Property and Website and Depreciation

Property is recorded at cost. Donated property is recorded at fair value at the time of donation. Renewals and betterments costing at least \$1,000 with an expected life greater than one year are capitalized, while repairs and maintenance are expensed as they are incurred. Depreciation is calculated using the straight-line method over three to seven years.

Costs incurred for developing new websites or adding new components to the websites are capitalized and amortized over a useful life of three years. Costs incurred for renovations, upgrades, and uploading of content to the websites are considered routine maintenance and are expensed as incurred.

Accumulated depreciation as of December 31, 2017 and 2016, was \$21,334 and \$8,187, respectively.

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All qualifying assets and liabilities are valued using Level 1 inputs.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2017 and 2016. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through April 27, 2018, which is the date the financial statements were available to be issued. In April 2018, management entered into an agreement to extend the office lease through July 2020, under the same terms (see Note 5). There were no other events that met the criteria for recognition or disclosure in the financial statements.

2. NET ASSETS

Unrestricted Net Assets

The Organization has grouped its unrestricted net assets into the following categories:

Operating represents those net resources that bear no external restrictions and are generally available for use by the Organization to carry on its operations.

Property and Website reflects the net book value of the Organization's property and website.

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2017 and 2016, are comprised of amounts received with donor restrictions which have not yet been expended. As of December 31, 2017 and 2016, temporarily restricted net assets are restricted as follows:

	<u>2017</u>	<u>2016</u>
Purpose	\$ 1,260,136	\$ 1,358,935
Formation Program (see Note 1)	782,219	718,538
Time	<u>371,820</u>	<u>123,316</u>
	<u>\$ 2,414,175</u>	<u>\$ 2,200,789</u>

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

3. GRANTS AND AID AND RELATED PARTIES

Grants and Aid - Donated

The Organization receives contributions of medical supplies, medicines, physical therapy equipment, vehicles, construction materials, office equipment, jewelry, and other items. Contributions such as medicine, medical supplies, and equipment are allocated directly to support and revenue as contributions and support - donated and are expensed as grants and aid - donated. The Organization uses publicly available information to determine the value of certain contributions or appraisals. In the absence of this information, these contributions are stated at fair value as determined by the donor or the Organization.

Grants and aid - donated for the years ended December 31, 2017 and 2016, were as follows:

	<u>2017</u>	<u>2016</u>
Medicines, equipment, clothing, food and construction materials	\$ 543,641	\$ 565,834
Shipping fees	<u>32,822</u>	<u>37,912</u>
Total	<u>\$ 576,463</u>	<u>\$ 603,746</u>

Grants and Aid - Cash

The Organization is one of the supporters of MSC International. Grants and aid - cash includes direct payments of cash to MSC International in Zimbabwe, Nicaragua, the Dominican Republic, Malawi, and Jamaica (the Apostolates). The grants and aid support the cost of operations and capital expenditures incurred by MSC International in these Apostolates. One of the directors of the Organization is also a director of MSC International.

4. PLEDGES RECEIVABLE

The Organization has unconditional pledges from various donors for general support and mission trip purposes.

Pledges receivable are due as follows at December 31:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 648,018	\$ 273,663
One to three years	<u>346,285</u>	<u>288,605</u>
	994,303	562,268
Less - allowance for doubtful pledges	5,581	5,581
Less - current portion	<u>478,018</u>	<u>156,163</u>
Long-term pledges receivable, net	<u>\$ 510,704</u>	<u>\$ 400,524</u>

Pledges receivable for the Formation Program (see Note 1) have been classified as non-current regardless of the planned date of receipt reflecting this program's long-term purpose. No discount was recorded at December 31, 2017 or 2016, as it was immaterial to the accompanying financial statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

5. LEASE AGREEMENTS

The Organization maintains its headquarters in Medfield, Massachusetts under a lease with monthly payments of \$1,750 and expiring, as extended, in July 2020. During fiscal years 2017 and 2016, the Organization incurred \$21,000 and \$22,545, respectively, of rent expense that is included as occupancy in the accompanying statements of functional expenses. As of December 31, 2017 and 2016, the Organization had prepaid \$31,750 and \$21,000, respectively, of rent due in future years.

Remaining annual lease payments are due as follows:

2018	\$ 21,000
2019	21,000
2020	<u>12,250</u>
Total	<u>\$ 54,250</u>

6. PENSION PLAN

Effective June 30, 2017, the Organization adopted a pension plan agreement pursuant to IRC Section 401(k), which covers substantially all employees. Employees may elect to defer their salary within IRC limits. There is no matching contribution from the Organization based on the pension plan agreement. The Organization incurred \$674 in plan related expenses for the year end December 31, 2017, which is recorded as employee benefits expense in the accompanying 2017 statement of functional expenses.

7. COMMITMENTS

The Organization had a three-year service contract for an online fundraising application that expired in November 2017. During 2017, the contract was renewed through November 2018. The original contract required fixed monthly payments of \$1,916 in the first year, \$2,162 in the second year, and \$2,413 in the third year. Under the renewal terms, fixed monthly payments are \$2,533. These fees are reflected in financial and internet fees in the accompanying statement of functional expenses. Remaining minimum fixed payments due under the contract for 2018 are \$27,866.

This contract also includes a variable fee of zero to 5.5% of certain transactions processed online. These payments totaled \$37,429 and \$31,113 for the years ended December 31, 2017 and 2016, respectively, and are reflected as donation processing fees in the accompanying statements of functional expenses.

8. CONCENTRATIONS

Credit Risk

The Organization maintains its cash and CD balances in various banks in Massachusetts. The Federal Deposit Insurance Corporation insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. Management monitors the financial condition of the financial institutions on a regular basis, along with their balances, to keep this potential risk to a minimum.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2017 and 2016

8. CONCENTRATIONS (Continued)

Pledges Receivable

Two donors represented 40% of pledges receivable as of December 31, 2017. One of those two donors represented 53% of pledges receivable as of December 31, 2016.

Pledges receivable from members of the Board of Directors totaled \$440,000 and \$53,000 as of December 31, 2017 and 2016, respectively.

9. RECLASSIFICATION

Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation.