



FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

MUSTARD SEED COMMUNITIES, INC.

Contents
December 31, 2016 and 2015

	<u>Pages</u>
Independent Auditor’s Report	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities and Changes in Net Assets	3
Statements of Cash Flows	4
Statements of Functional Expenses	5
Notes to Financial Statements	6 - 11



21 East Main Street
Westborough, MA 01581
508.366.9100
aafcpa.com

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, 2016 and 2015, 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, 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.

Alexander, Brown, Pinning & Co., P.C.

Wellesley, Massachusetts
April 28, 2017

MUSTARD SEED COMMUNITIES, INC.Statements of Financial Position
December 31, 2016 and 2015

Assets	2016	2015
Current Assets:		
Cash	\$ 1,933,391	\$ 2,055,254
Certificates of deposit	86,639	86,614
Current portion of pledges receivable	156,163	174,612
Prepaid expenses and other	42,193	14,741
Total current assets	2,218,386	2,331,221
Cash Restricted for the Formation Program	405,788	-
Pledges Receivable for the Formation Program	312,750	-
Pledges Receivable - Other, net of current portion	87,774	40,034
Property and Website, net	36,238	20,554
Total assets	<u>\$ 3,060,936</u>	<u>\$ 2,391,809</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	<u>\$ 37,814</u>	<u>\$ 12,631</u>
Net Assets:		
Unrestricted:		
Operating	786,095	651,309
Equipment	36,238	20,554
Total unrestricted	822,333	671,863
Temporarily restricted	2,200,789	1,707,315
Total net assets	<u>3,023,122</u>	<u>2,379,178</u>
Total liabilities and net assets	<u>\$ 3,060,936</u>	<u>\$ 2,391,809</u>

MUSTARD SEED COMMUNITIES, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue and Special Events:						
Special events:						
Event contributions and support	\$ 390,703	\$ -	\$ 390,703	\$ 422,651	\$ -	\$ 422,651
Less - direct expenses	(90,326)	-	(90,326)	(113,472)	-	(113,472)
Net revenues from special events	300,377	-	300,377	309,179	-	309,179
Contributions and support - cash	3,184,449	1,008,640	4,193,089	2,451,458	1,115,003	3,566,461
Contributions and support - donated	603,746	-	603,746	748,327	-	748,327
Interest and other	5,470	-	5,470	4,118	-	4,118
Net assets released from restrictions	515,166	(515,166)	-	635,944	(635,944)	-
Total support and revenue and special events	4,609,208	493,474	5,102,682	4,149,026	479,059	4,628,085
Operating Expenses:						
Program expenses:						
Grants and aid:						
Cash	3,193,890	-	3,193,890	2,751,495	-	2,751,495
Donated	603,746	-	603,746	748,327	-	748,327
Total grants and aid	3,797,636	-	3,797,636	3,499,822	-	3,499,822
Personnel, related and other	198,926	-	198,926	187,537	-	187,537
Total program expenses	3,996,562	-	3,996,562	3,687,359	-	3,687,359
Administration	254,856	-	254,856	172,766	-	172,766
Fundraising	207,320	-	207,320	232,276	-	232,276
Total operating expenses	4,458,738	-	4,458,738	4,092,401	-	4,092,401
Changes in net assets	150,470	493,474	643,944	56,625	479,059	535,684
Net Assets:						
Beginning of year	671,863	1,707,315	2,379,178	615,238	1,228,256	1,843,494
End of Year	\$ 822,333	\$ 2,200,789	\$ 3,023,122	\$ 671,863	\$ 1,707,315	\$ 2,379,178

The accompanying notes are an integral part of these statements.

MUSTARD SEED 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	\$ 643,944	\$ 535,684
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	725	4,604
Bad debt (recoveries)	(2,683)	5,489
Changes in operating assets and liabilities:		
Pledges receivable	(339,358)	(9,917)
Prepaid expenses and other	(27,452)	7,190
Accounts payable and accrued expenses	25,183	(3,745)
	<u>300,359</u>	<u>539,305</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Maturity of certificates of deposit	86,614	86,584
Purchase of certificates of deposit	(86,639)	(86,614)
Increase in restricted cash - Formation Program	(405,788)	-
Purchase of property and website	(16,409)	(22,325)
	<u>(422,222)</u>	<u>(22,355)</u>
Net cash used in investing activities		
Net Change in Cash	(121,863)	516,950
Cash:		
Beginning of year	<u>2,055,254</u>	<u>1,538,304</u>
End of year	<u>\$ 1,933,391</u>	<u>\$ 2,055,254</u>

MUSTARD SEED COMMUNITIES, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2016 and 2015

	2016				2015			
	Program	Adminis- tration	Fundraising	Total	Program	Adminis- tration	Fundraising	Total
Operating Expenses:								
Personnel and related:								
Salaries and wages	\$ 118,991	\$ 125,189	\$ 68,478	\$ 312,658	\$ 129,851	\$ 65,117	\$ 106,092	\$ 301,060
Payroll taxes	8,771	10,353	6,213	25,337	10,353	5,036	8,578	23,967
Employee benefits	203	15,913	406	16,522	850	881	4,337	6,068
Recruitment	336	-	2,746	3,082	-	419	1,391	1,810
Total personnel and related	128,301	151,455	77,843	357,599	141,054	71,453	120,398	332,905
Grants and aid:								
Cash	3,193,890	-	-	3,193,890	2,751,495	-	-	2,751,495
Donated	603,746	-	-	603,746	748,327	-	-	748,327
Total grants and aid	3,797,636	-	-	3,797,636	3,499,822	-	-	3,499,822
Other:								
Professional fees	4,411	60,070	24,767	89,248	771	50,548	1,493	52,812
Donation processing fees	3,520	-	51,200	54,720	-	-	57,037	57,037
Financial and internet fees	13,864	15,639	17,770	47,273	12,598	16,348	15,632	44,578
Occupancy	8,400	5,745	8,400	22,545	6,860	3,430	6,860	17,150
Mission trips - other	21,530	-	-	21,530	9,180	-	-	9,180
Travel	14,468	3,793	2,137	20,398	12,147	2,273	5,616	20,036
Printing and publications	115	1,226	15,691	17,032	931	1,254	14,595	16,780
Office and other	968	5,718	1,782	8,468	135	7,030	1,961	9,126
Postage	23	2,860	5,137	8,020	-	2,705	6,460	9,165
Insurance	401	6,102	205	6,708	519	4,934	372	5,825
Telephone	2,839	1,448	1,545	5,832	3,189	2,392	854	6,435
Miscellaneous	86	75	843	1,004	153	306	998	1,457
Depreciation	-	725	-	725	-	4,604	-	4,604
Bad debt	-	-	-	-	-	5,489	-	5,489
Total other	70,625	103,401	129,477	303,503	46,483	101,313	111,878	259,674
Total operating expenses	\$ 3,996,562	\$ 254,856	\$ 207,320	\$ 4,458,738	\$ 3,687,359	\$ 172,766	\$ 232,276	\$ 4,092,401

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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 over a ten-year period which will fund capital and operating expenses. Funds raised during 2016 totaled \$723,238 and are included in cash restricted for the Formation Program and non-current pledges receivable for the Formation Program.

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.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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.

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.

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 \$1,761 and \$1,700 for the years ended December 31, 2016 and 2015, 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, 2016, mature in April and February 2017, and have interest rates of 0.03% and 0.05%, respectively. The CDs at December 31, 2015, matured in March and May 2016, and had interest rates of 0.03% and 0.05%, respectively.

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, 2016 and 2015, was \$8,187 and \$9,337, respectively.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2016 and 2015. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

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.

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.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

Subsequent events have been evaluated through April 28, 2017, which is the date the financial statements were available to be issued. There were no 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.

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

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 and 2015, are comprised of amounts received with donor restrictions which have not yet been expended. As of December 31, 2016 and 2015, temporarily restricted net assets are restricted as follows:

	<u>2016</u>	<u>2015</u>
Purpose	\$ 1,358,935	\$ 1,578,093
Formation Program (see Note 1)	718,538	-
Time	<u>123,316</u>	<u>129,222</u>
	<u>\$ 2,200,789</u>	<u>\$ 1,707,315</u>

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, stock, 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. Information may be in the form of appraisals or the current fair value in the case of securities, which are readily marketable or listed on an exchange or quoted in an open market. The Organization has a policy to liquidate securities upon receipt. In the absence of the above, these contributions are stated at fair value as determined by the donor or the Organization.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

3. GRANTS AND AID AND RELATED PARTIES (Continued)

Grants and Aid - Donated (Continued)

Commencing in 2016, the Organization ceased recording the fair value of certain goods and services where the donor did not provide a value. This policy change has no effect on net assets or changes in net assets for the year ended December 31, 2016. The effect on donated revenue and expenses for 2016 cannot be determined.

Grants and aid - donated for the years ended December 31, 2016 and 2015, were as follows:

	<u>2016</u>	<u>2015</u>
Medicines, equipment, clothing, food and construction materials	\$ 565,834	\$ 699,087
Shipping fees	<u>37,912</u>	<u>49,240</u>
Total	<u>\$ 603,746</u>	<u>\$ 748,327</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>2016</u>	<u>2015</u>
Less than one year	\$ 273,663	\$ 174,612
One to three years	<u>288,605</u>	<u>48,298</u>
	562,268	222,910
Less - allowance for doubtful pledges	5,581	8,264
Less - current portion	<u>156,163</u>	<u>174,612</u>
Long-term pledges receivable, net	<u>\$ 400,524</u>	<u>\$ 40,034</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, 2016 or 2015, as it was immaterial to the accompanying financial statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2016 and 2015

5. LEASE AGREEMENTS

The Organization maintains its headquarters in Medfield, Massachusetts under a lease commencing on August 1, 2015, with monthly payments of \$1,750 and expiring on July 31, 2018. During fiscal years 2016 and 2015, the Organization incurred \$22,545 and \$17,150, respectively, of rent expense that is included as occupancy in the accompanying statements of functional expenses.

Remaining annual lease payments are due as follows:

2017	\$ 21,000
2018	\$ 12,250

As of December 31, 2016, the Organization has prepaid \$21,000 of rent due in 2017.

6. COMMITMENTS

The Organization has a three-year service contract for an online fundraising application expiring in November 2017. The contract requires fixed monthly payments of \$1,916 in the first year, \$2,162 in the second year, and \$2,413 in the third year. These fees are reflected in financial and internet fees in the accompanying statements of functional expenses. Remaining minimum fixed quarterly payments under the contract for 2017 are \$21,714.

This contract also includes a variable fee of zero to 5.5% of certain transactions processed online. These payments totaled \$31,113 and \$32,868 for the years ended December 31, 2016 and 2015, respectively, and are reflected as donation processing fees in the accompanying statements of functional expenses.

7. CONCENTRATIONS

Concentrations of 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.

Concentrations of Pledges Receivable

One donor represented 53% of pledges receivable as of December 31, 2016, and a separate donor represented 13% of pledges receivable as of December 31, 2015.