



FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

MUSTARD SEED COMMUNITIES, INC.

Contents
December 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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 11, 2019

MUSTARD SEED COMMUNITIES, INC.Statements of Financial Position
December 31, 2018 and 2017

Assets	2018	2017 (Restated)
Current Assets:		
Cash	\$ 1,504,595	\$ 1,508,102
Certificates of deposit	-	86,666
Current portion of cash restricted for the Formation Program	149,568	285,568
Current portion of pledges receivable	314,455	478,018
Prepaid expenses and other	58,511	90,337
Total current assets	2,027,129	2,448,691
Cash Restricted for the Formation Program, net of current portion	298,064	222,116
Pledges Receivable for the Formation Program	267,000	396,000
Pledges Receivable - Other, net of current portion and allowance	109,259	114,704
Property and Website, net	17,925	28,227
Total assets	\$ 2,719,377	\$ 3,209,738
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 37,185	\$ 24,866
Net Assets:		
Without donor restrictions:		
Operating	660,101	621,005
Property and website	17,925	28,227
Total without donor restrictions	678,026	649,232
With donor restrictions	2,004,166	2,535,640
Total net assets	2,682,192	3,184,872
Total liabilities and net assets	\$ 2,719,377	\$ 3,209,738

MUSTARD SEED COMMUNITIES, INC.

 Statements of Activities and Changes in Net Assets
 For the Years Ended December 31, 2018 and 2017

	2018			2017 (Restated)		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Special events:						
Event contributions and support	\$ 304,634	\$ -	\$ 304,634	\$ 469,912	\$ -	\$ 469,912
Less - direct expenses	<u>(116,326)</u>	<u>-</u>	<u>(116,326)</u>	<u>(114,575)</u>	<u>-</u>	<u>(114,575)</u>
Net revenues from special events	188,308	-	188,308	355,337	-	355,337
Contributions and support - cash	4,066,221	337,804	4,404,025	3,095,104	941,531	4,036,635
Contributions and support - donated	475,834	-	475,834	576,463	-	576,463
Interest and other	5,900	-	5,900	6,350	-	6,350
Net assets released from restrictions	869,278	(869,278)	-	687,040	(687,040)	-
Total support and revenue	<u>5,605,541</u>	<u>(531,474)</u>	<u>5,074,067</u>	<u>4,720,294</u>	<u>254,491</u>	<u>4,974,785</u>
Operating Expenses:						
Program expenses:						
Grants and aid:						
Cash	4,210,883	-	4,210,883	3,466,039	-	3,466,039
Donated	<u>475,834</u>	<u>-</u>	<u>475,834</u>	<u>576,463</u>	<u>-</u>	<u>576,463</u>
Total grants and aid	4,686,717	-	4,686,717	4,042,502	-	4,042,502
Personnel, related and other	<u>310,018</u>	<u>-</u>	<u>310,018</u>	<u>286,486</u>	<u>-</u>	<u>286,486</u>
Total program expenses	4,996,735	-	4,996,735	4,328,988	-	4,328,988
Administration	283,100	-	283,100	234,757	-	234,757
Fundraising	<u>296,912</u>	<u>-</u>	<u>296,912</u>	<u>249,290</u>	<u>-</u>	<u>249,290</u>
Total operating expenses	<u>5,576,747</u>	<u>-</u>	<u>5,576,747</u>	<u>4,813,035</u>	<u>-</u>	<u>4,813,035</u>
Changes in net assets	<u>28,794</u>	<u>(531,474)</u>	<u>(502,680)</u>	<u>(92,741)</u>	<u>254,491</u>	<u>161,750</u>
Net Assets:						
Beginning of year	649,232	2,535,640	3,184,872	822,333	2,200,789	3,023,122
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>(80,360)</u>	<u>80,360</u>	<u>-</u>
Beginning of year, as restated	<u>649,232</u>	<u>2,535,640</u>	<u>3,184,872</u>	<u>741,973</u>	<u>2,281,149</u>	<u>3,023,122</u>
End of year	<u>\$ 678,026</u>	<u>\$ 2,004,166</u>	<u>\$ 2,682,192</u>	<u>\$ 649,232</u>	<u>\$ 2,535,640</u>	<u>\$ 3,184,872</u>

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.Statements of Cash Flows
For the Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> (Restated)
Cash Flows from Operating Activities:		
Changes in net assets	\$ (502,680)	\$ 161,750
Adjustments to reconcile changes in net assets to net cash used in operating activities:		
Depreciation	12,975	13,147
Changes in operating assets and liabilities:		
Pledges receivable	298,008	(432,035)
Prepaid expenses and other	31,826	(48,144)
Accounts payable and accrued expenses	12,319	(12,948)
	<u>(147,552)</u>	<u>(318,230)</u>
Net cash used in operating activities		
	<u>(147,552)</u>	<u>(318,230)</u>
Cash Flows from Investing Activities:		
Maturity of certificates of deposit	86,666	86,639
Purchase of certificates of deposit	-	(86,666)
Change in restricted cash for the Formation Program	60,052	(101,896)
Purchase of property and website	(2,673)	(5,136)
	<u>144,045</u>	<u>(107,059)</u>
Net cash provided by (used in) investing activities		
	<u>144,045</u>	<u>(107,059)</u>
Net Change in Cash	(3,507)	(425,289)
Cash:		
Beginning of year	<u>1,508,102</u>	<u>1,933,391</u>
End of year	<u>\$ 1,504,595</u>	<u>\$ 1,508,102</u>

MUSTARD SEED COMMUNITIES, INC.

Statements of Functional Expenses
December 31, 2018 and 2017

	2018				2017			
	Program	Adminis- tration	Fundraising	Total	Program	Adminis- tration	Fundraising	Total
Operating Expenses:								
Personnel and related:								
Salaries and wages	\$ 177,302	\$ 170,565	\$ 118,050	\$ 465,917	\$ 166,679	\$ 131,871	\$ 81,084	\$ 379,634
Employee benefits	25,036	24,787	11,891	61,714	8,129	7,345	3,900	19,374
Payroll taxes	13,844	13,688	9,830	37,362	12,606	11,078	7,228	30,912
Recruitment	2,264	-	-	2,264	944	-	-	944
Total personnel and related	<u>218,446</u>	<u>209,040</u>	<u>139,771</u>	<u>567,257</u>	<u>188,358</u>	<u>150,294</u>	<u>92,212</u>	<u>430,864</u>
Grants and aid:								
Cash	4,210,883	-	-	4,210,883	3,466,039	-	-	3,466,039
Donated	475,834	-	-	475,834	576,463	-	-	576,463
Total grants and aid	<u>4,686,717</u>	<u>-</u>	<u>-</u>	<u>4,686,717</u>	<u>4,042,502</u>	<u>-</u>	<u>-</u>	<u>4,042,502</u>
Other:								
Direct event expenses	-	-	116,326	116,326	-	-	114,575	114,575
Donation processing fees	28	10	78,059	78,097	-	6	65,298	65,304
Financial and internet fees	24,672	12,513	14,250	51,434	23,415	12,101	13,652	49,168
Professional fees	1,125	22,817	13,311	37,253	15,368	33,941	38,997	88,306
Mission trips - other	31,468	-	-	31,468	23,846	-	-	23,846
Printing and publications	1,841	775	28,099	30,716	4,903	1,017	18,013	23,933
Travel	19,693	1,721	2,563	23,977	18,636	1,545	3,530	23,711
Occupancy	8,400	4,200	8,400	21,000	8,400	4,200	8,400	21,000
Depreciation	-	12,975	-	12,975	-	13,147	-	13,147
Postage	161	2,283	8,577	11,022	247	3,032	5,312	8,591
Office and other	811	6,338	1,516	8,665	262	5,161	1,524	6,947
Insurance	454	7,867	235	8,556	358	7,931	271	8,560
Telephone	2,872	793	1,069	4,735	2,583	1,039	924	4,546
Miscellaneous	47	1,768	1,061	2,875	110	1,343	1,157	2,610
Total other	<u>91,572</u>	<u>74,060</u>	<u>273,467</u>	<u>439,099</u>	<u>98,128</u>	<u>84,463</u>	<u>271,653</u>	<u>454,244</u>
Total operating expenses before direct event expenses	4,996,735	283,100	413,238	5,693,073	4,328,988	234,757	363,865	4,927,610
Direct event expenses	-	-	(116,326)	(116,326)	-	-	(114,575)	(114,575)
Total operating expenses	<u>\$ 4,996,735</u>	<u>\$ 283,100</u>	<u>\$ 296,912</u>	<u>\$ 5,576,747</u>	<u>\$ 4,328,988</u>	<u>\$ 234,757</u>	<u>\$ 249,290</u>	<u>\$ 4,813,035</u>

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

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 through December 31, 2018, totaled \$1,542,999, including a \$240,000 intention to give that is not recorded in the financial statements.

SIGNIFICANT ACCOUNTING POLICIES

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

Adoption of New Financial Reporting Standard

In fiscal year 2018, the Organization adopted FASB's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Organization's net asset classes, results of operations, or cash flows for the year ended December 31, 2018. This ASU has been applied retrospectively to all periods presented.

Revenue Recognition

Contributions and support without donor restrictions are recorded as revenue when received or unconditionally pledged. Restricted contributions and support are recorded as revenue with donor restrictions when received or unconditionally pledged. Transfers are made to net assets without donor restrictions 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 net assets without donor restrictions. All other revenue is recorded when earned.

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, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

Advertising

The Organization expenses advertising costs as incurred. Advertising costs of \$1,104 and \$951 for the years ended December 31, 2018 and 2017, respectively, are included in office and other in the accompanying statements of functional expenses.

Cash

For purposes of the statements of cash flows, cash excludes amounts restricted by the donor for long-term purposes. Cash restricted for the Formation Program (see page 6) is restricted for capital and operating grants to this program over a ten-year period commencing in 2016. Amounts expected to be disbursed in the next fiscal year are reported as a current asset with the remainder reported as long-term reflecting management's intent.

Certificates of Deposit

The certificates of deposit (CDs) had initial maturities of eleven months. The CDs were renewed during 2018 for nine months and were liquidated upon maturity. The CDs at December 31, 2017, matured in January and March 2018.

Pledges Receivable and Allowance for Uncollectible Accounts

Pledges receivable are recorded at net realizable value. 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.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2018 and 2017, was \$34,309 and \$21,334, 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.

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, 2018 and 2017

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Expense Allocation

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

The financial statements contain certain categories of expenses that are attributable to program and supporting functions. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes and employee benefits, which are allocated based on an estimate of time and level of effort spent on the Organization's program and supporting functions and occupancy, which is allocated based on space utilized by each function.

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, 2018 and 2017. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through April 11, 2019, 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

Net Assets Without Donor Restrictions

The Organization has grouped its net assets without donor restrictions 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.

MUSTARD SEED COMMUNITIES, INC.Notes to Financial Statements
December 31, 2018 and 2017

2. NET ASSETS (Continued)**Net Assets With Donor Restrictions**

Net assets with donor restrictions are comprised of amounts received with donor-imposed purpose or time restrictions that have not yet been met. As of December 31, 2018 and 2017, these amounts are restricted as follows:

	<u>2018</u>	<u>2017</u>
Funds held for restricted purposes:		
Restricted for the Formation Program	\$ 714,632	\$ 903,684
Restricted for Jamaica	616,114	543,189
Restricted for Nicaragua	445,309	596,604
Restricted for Dominican Republic	13,901	65,104
Restricted for Zimbabwe	<u>1,062</u>	<u>55,239</u>
Total with donor purpose restrictions	1,791,018	2,163,820
Funds subject to the passage of time:		
Promises to give that are not restricted by donors, but which are unavailable for expenditure until collected	<u>213,148</u>	<u>371,820</u>
Total net assets with donor restrictions	<u>\$ 2,004,166</u>	<u>\$ 2,535,640</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions:		
Jamaica	\$ 2,280,384	\$ 1,782,443
Nicaragua	737,385	593,586
Dominican Republic	306,949	318,460
Formation Program	277,399	306,268
Zimbabwe	162,928	139,970
Malawi	<u>1,233</u>	<u>6,124</u>
Total funds released from net assets with donor restrictions	3,766,278	3,146,851
Less - funds received and released in the same year	<u>2,897,000</u>	<u>2,459,811</u>
Net funds released from net assets with donor restrictions	<u>\$ 869,278</u>	<u>\$ 687,040</u>

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

3. GRANTS AND AID AND RELATED PARTIES

Contributions and Support - 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.

Grants and aid - donated for the years ended December 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Medicines, equipment, clothing, food and construction materials	\$ 456,223	\$ 543,641
Shipping fees	<u>19,611</u>	<u>32,822</u>
Total	<u>\$ 475,834</u>	<u>\$ 576,463</u>

Contributions and Support - 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>2018</u>	<u>2017</u>
Less than one year	\$ 496,455	\$ 648,018
One to three years	<u>199,840</u>	<u>346,285</u>
	696,295	994,303
Less - allowance for doubtful pledges	5,581	5,581
Less - current portion	<u>314,455</u>	<u>478,018</u>
Long-term pledges receivable, net	<u>\$ 376,259</u>	<u>\$ 510,704</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, 2018 or 2017, as the discount amount would be immaterial to the accompanying financial statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

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 2018 and 2017, the Organization incurred \$21,000 of rent expense that is included in occupancy in the accompanying statements of functional expenses. As of December 31, 2018 and 2017, the Organization had prepaid \$10,750 and \$31,750, respectively, of rent due in future years.

Remaining annual lease payments are due as follows:

2019	\$ 21,000
2020	<u>12,250</u>
Total	<u>\$ 33,250</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 \$1,312 and \$674 in plan related expenses for the years ended December 31, 2018 and 2017, respectively, which are included in employee benefits expense in the accompanying statements of functional expenses.

7. COMMITMENTS

The Organization had a three-year service contract for an online fundraising application that expired in November 2018. During 2018, the contract was renewed through November 2020. Under the renewal terms, fixed monthly payments are \$2,660. These fees are included in financial and internet fees in the accompanying statements of functional expenses. Remaining minimum fixed payments due under the contract for 2019 and 2020 are \$31,920 and \$29,260, respectively.

This contract also includes a variable fee of zero to 5.5% of certain transactions processed online. These payments totaled \$45,866 and \$37,429 for the years ended December 31, 2018 and 2017, respectively, and are included as donation processing fees in the accompanying statements of functional expenses.

8. CONCENTRATIONS

Credit Risk

The Organization maintains its cash 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.

Pledges Receivable

One donor represented 16% of pledges receivable at December 31, 2018. Two donors represented 40% of pledges receivable as of December 31, 2017. Pledges receivable from members of the Board of Directors totaled \$155,000 and \$440,000 as of December 31, 2018 and 2017, respectively.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2018 and 2017

9. LIQUIDITY

The Organization has the following financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Cash	\$ 1,504,595	\$ 1,508,102
Certificates of deposit	-	86,666
Current portion of restricted cash	149,568	285,568
Current portion of pledges receivable	<u>314,455</u>	<u>478,018</u>
Current financial assets	1,968,618	2,358,354
Less - donor restricted for non-operating purposes	<u>679,313</u>	<u>751,031</u>
Total	<u>\$ 1,289,305</u>	<u>\$ 1,607,323</u>

The Organization receives significant contributions with specific donor restrictions to be used in accordance with the associated purpose restrictions. It considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. Operating expenditures include administrative and general expenses, fundraising expenses, and monthly operating grants and aid. Monthly operating grants and aid are budgeted but are not commitments of the Organization and are paid only if funds are available.

The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Organization maintains current financial assets less current liabilities at a minimum of sixty-days operating expenses. The Organization targets a year-end balance of reserves of operating net assets at fifteen to thirty days of expected expenditures. To achieve these targets, the Organization monitors its liquidity quarterly, and monitors its reserves annually. During the years ended December 31, 2018 and 2017, the level of liquidity and reserves was managed within these ratios.

10. PRIOR PERIOD ADJUSTMENT

During 2018, the Organization elected to exempt Formation Program contributions (see Note 1) from its policy of allocating a portion of all contributions to revenue without donor restrictions to cover donation administration. Accordingly, certain funds released to net assets without donor restrictions during 2017 and 2016 have been reclassified to net assets with donor restrictions. This restatement does not affect total financial position, changes in net assets or cash flows for the year ended December 31, 2017.

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10. PRIOR PERIOD ADJUSTMENT (Continued)

The cash and net asset balances as of December 31, 2017 and 2016, and net asset released from donor restrictions for the year ended December 31, 2017, have been restated as follows:

	<u>As Previously Reported</u>	<u>Restatement</u>	<u>As Restated</u>
As of December 31, 2016:			
Net assets without donor restrictions	\$ 822,333	\$ (80,360)	\$ 741,973
Net assets with donor restrictions	2,200,789	80,360	2,281,149
For the year ended December 31, 2017:			
Net assets released from restrictions	728,245	(41,205)	687,040
As of December 31, 2017:			
Cash	1,629,567	(121,465)	1,508,102
Cash restricted for the Formation Program	386,219	121,465	507,684
Net assets without donor restrictions	770,697	(121,465)	649,232
Net assets with donor restrictions	2,414,175	121,465	2,535,640

11. RECLASSIFICATION

Certain amounts in the 2017 financial statements have been reclassified to conform with the 2018 presentation.