

SEED EFFECT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2020 and 2019
with
Independent Auditors' Report

SEED EFFECT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Seed Effect

We have audited the accompanying financial statements of Seed Effect (a nonprofit organization), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, 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 audit 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 Seed Effect as of December 31, 2020 and 2019, 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.

Huseltan, Morgan + Maultsby, P.C.

Dallas, Texas
April 5, 2021

SEED EFFECT
STATEMENTS OF FINANCIAL POSITION
December 31, 2020 and 2019

	ASSETS	
	2020	2019
Cash and cash equivalents:		
Without donor restrictions	\$ 548,008	\$ 268,890
With donor restrictions	201,324	125,000
Total cash and cash equivalents	749,332	393,890
Pledge receivable	-	100,000
Employee receivable	-	1,346
Prepaid expenses	3,981	8,168
Total assets	\$ 753,313	\$ 503,404

LIABILITIES AND NET ASSETS

Accounts payable and accrued liabilities	\$ 5,215	\$ 206
Note payable	64,925	-
Total liabilities	70,140	206
Net assets:		
Without donor restrictions	481,849	378,198
With donor restrictions	201,324	125,000
Total net assets	683,173	503,198
Total liabilities and net assets	\$ 753,313	\$ 503,404

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 843,735	\$ 346,515	\$ 1,190,250
Special events (less costs of direct benefit to donors of \$1,050)	8,236	-	8,236
Interest income	1,481	-	1,481
Net assets released from restriction	270,191	(270,191)	-
Total revenues, gains, and other support	<u>1,123,643</u>	<u>76,324</u>	<u>1,199,967</u>
Expenses:			
Program services	780,496	-	780,496
Management and general	122,872	-	122,872
Fundraising	116,624	-	116,624
Total expenses	<u>1,019,992</u>	<u>-</u>	<u>1,019,992</u>
Change in net assets	103,651	76,324	179,975
Net assets, beginning of year	<u>378,198</u>	<u>125,000</u>	<u>503,198</u>
Net assets, end of year	<u>\$ 481,849</u>	<u>\$ 201,324</u>	<u>\$ 683,173</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 675,171	\$ 236,395	\$ 911,566
Special events (less costs of direct benefit to donors of \$55,828)	113,779	-	113,779
Interest income	2,025	-	2,025
Net assets released from restrictions	<u>259,395</u>	<u>(259,395)</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,050,370</u>	<u>(23,000)</u>	<u>1,027,370</u>
Expenses:			
Program services	758,330	-	758,330
Management and general	154,056	-	154,056
Fundraising	<u>151,117</u>	<u>-</u>	<u>151,117</u>
Total expenses	<u>1,063,503</u>	<u>-</u>	<u>1,063,503</u>
Change in net assets	(13,133)	(23,000)	(36,133)
Net assets, beginning of year	<u>391,331</u>	<u>148,000</u>	<u>539,331</u>
Net assets, end of year	<u>\$ 378,198</u>	<u>\$ 125,000</u>	<u>\$ 503,198</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2020

	Supporting Activities			Total
	Program Services	Management and General	Fundraising	
Salaries and benefits	\$ 153,671	\$ 76,691	\$ 107,609	\$ 337,971
Program related grants	587,830	-	-	587,830
Other expenses:				
Advertising	-	2,187	3,519	5,706
Insurance	-	2,031	-	2,031
IT	21,135	4,955	-	26,090
Miscellaneous	538	2,567	124	3,229
Office	-	8,310	3,412	11,722
Outside service	16,106	22,140	16	38,262
Rent	-	1,840	-	1,840
Special events	-	384	666	1,050
Travel and meetings	1,216	2,151	1,944	5,311
Total other expenses	38,995	46,565	9,681	95,241
Total expenses	780,496	123,256	117,290	1,021,042
Less expenses included with revenues on the statement of activities	-	(384)	(666)	(1,050)
Total expenses included in the expense section of the statement of activities	\$ 780,496	\$ 122,872	\$ 116,624	\$ 1,019,992

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Salaries and benefits	\$ 149,404	\$ 64,722	\$ 118,052	\$ 332,178
Program related grants	545,600	-	-	545,600
Other expenses:				
Advertising	2,180	6,168	4,506	12,854
Insurance	-	2,128	-	2,128
IT	831	4,203	-	5,034
Miscellaneous	74	2,966	276	3,316
Office	274	6,419	9,455	16,148
Outside service	900	60,631	16,030	77,561
Rent	-	989	-	989
Travel and meetings	59,067	5,830	2,798	67,695
Special events	129	(314)	56,013	55,828
Total other expenses	<u>63,455</u>	<u>89,020</u>	<u>89,078</u>	<u>241,553</u>
Total expenses	758,459	153,742	207,130	1,119,331
Less expenses included with revenues on the statement of activities	<u>(129)</u>	<u>314</u>	<u>(56,013)</u>	<u>(55,828)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 758,330</u>	<u>\$ 154,056</u>	<u>\$ 151,117</u>	<u>\$ 1,063,503</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 179,975	\$ (36,133)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Decrease (increase) in pledge receivable	100,000	(60,000)
Decrease (increase) in employee receivable	1,346	(1,346)
Increase in prepaid expenses	4,187	782
Increase (decrease) in accounts payable and accrued liabilities	5,009	(6,162)
Net cash provided (used) by operating activities	290,517	(102,859)
Cash flows from financing activities:		
Proceeds from note payable	64,925	-
Net cash provided by financing activities	64,925	-
Net increase (decrease) in cash and cash equivalents:	355,442	(102,859)
Cash and cash equivalents, beginning of year	393,890	496,749
Cash and cash equivalents, end of year	\$ 749,332	\$ 393,890

See accompanying notes to financial statements.

SEED EFFECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Seed Effect (the “Organization”) was founded in 2012. The Organization is a Christ-centered, economic development organization with a mission to plant the seeds that overcome poverty by providing access to economic empowerment, education, and spiritual discipleship in marginalized communities around the world. The Organization pursues this mission by providing financial and technical support to Seed Effect Uganda (“SEU”).

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Recent Accounting Pronouncements

In February 2016, the FASB issued Accounting Standard Update (“ASU”) 2016-02, *Leases (Topic 842)*, which will require leases to be recorded as an asset on the balance sheet for the right to use the leased asset and a liability for the corresponding lease obligation for leases with terms of more than twelve months. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2020, with early adoption permitted. The Organization is currently reviewing this update and has not yet determined the effect this may have on the financial statements.

New Accounting Pronouncement

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The ASU clarifies and improves the guidance for contributions made, and provides guidance to organizations on how to account for certain exchange transactions. This

change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profits.

The change in accounting principle was adopted by the Organization on a modified prospective basis for the year ended December 31, 2019. As a result, there was no cumulative effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of January 1, 2019.

Contributions and Promises to Give

Contributions, including unconditional promises to give, are recognized in the period received. Conditional contributions are recognized in the period the conditions have been met. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. In-kind support arising from donated materials and services is recorded as both revenues and expenses based on the fair market value of the donated materials and services. See Note 3 for further discussion.

Functional Allocation of Expenses

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and

assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Fair Value of Financial Instruments

GAAP requires disclosure of an estimate of fair value of certain financial instruments. The Organization's financial instruments are cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities. For these financial instruments, carrying values approximate fair value.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Donated Stock

Donated common stock is stated at fair value based on quoted prices in active markets (all level 1 measurements). The Organization initially records donated investments at the fair value as of the date of donation. Realized and unrealized gains and losses are included in investment income in the accompanying Statements of Activities. It is the Organization's policy to liquidate donated stock within three months. Therefore, donated stock held at year end is classified as cash and cash equivalents on the accompanying Statements of Financial Position.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed in the year incurred. For the years ended December 31, 2020 and 2019, advertising expense totals \$5,706 and \$12,854, respectively.

Subsequent Events

Management has reviewed subsequent events through April 5, 2021, the date the financial statements were available to be issued, and determined there were no other items to disclose.

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Organization's financial assets as of the balance sheet date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for specific programs and a board designated emergency reserve.

Financial assets, at year-end	\$ 749,332
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	(201,324)
Board designations:	
Emergency reserve	<u>(175,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 373,008</u>

In the ordinary course of operations, the Organization receives restricted contributions. Because a donor's restriction requires resources to be used in a particular manner, the Organization must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization's Board of Directors has established an emergency reserve fund that may be drawn upon in the event of financial distress or an immediate liquidity need. For the years ended December 31, 2020 and 2019, the emergency reserve fund totals \$175,000.

3. IN-KIND DONATIONS

The Organization recognizes the fair value of contributed services received if such services a) create or enhance nonfinancial assets or, b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed. In addition, numerous volunteers have donated significant amounts of their time to advance the Organization's program and objectives. However, these donated services are not

reflected in the accompanying financial statements since these services do not meet the criteria for recognition.

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Stateside Capacity Fund	\$ 176,324	\$ 100,000
THF Fund	25,000	25,000
Total	<u>\$ 201,324</u>	<u>\$ 125,000</u>

5. INCOME TAXES

The Organization is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code, except on net income derived from unrelated business activity. A favorable determination related to tax exempt status was received July 23, 2012 from the Internal Revenue Service. For the years ended December 31, 2020 and 2019, the Organization has no unrelated business income. Accordingly, no provision for income taxes is made in the accompanying financial statements.

Management has evaluated the Organization's tax positions and has not identified any material uncertain tax positions that would not be sustained in a federal or state income tax examination. Accordingly, no provision for uncertain tax positions has been made in the accompanying financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

6. RELATED PARTY TRANSACTIONS

The Organization works closely with Empower One, a Christ-centered, nonprofit organization with a mission of empowering leaders of South Sudan to know how to make a disciple of Jesus, who can start a church that can then transform their community. In 2020 and

2019, two members of the Organization's Board of Directors also served on the board of directors for Empower One.

Contributions from the Organization's board members totaled \$62,635 and \$69,840, respectively, for the years ended December 31, 2020 and 2019. Contributions from the Organization's employees totaled \$1,164 and \$3,942, respectively, for the years ended December 31, 2020 and 2019.

Employees will receive travel advances prior to business trips for all associated expenses. If there are any unused funds, the employee will reimburse that amount to the Organization. Employee receivables totaled \$0 and \$1,346, respectively, for the years ended December 31, 2020 and 2019.

7. CONCENTRATION OF CREDIT RISK

The cash balances of the Organization are held in a financial institution located in the North Texas area. If cash balances exceed amounts covered by insurance provided by the Federal Deposit Insurance Corporation, the excess balances could be at risk of loss. The total amount of cash at risk of loss at December 31, 2020 is \$475,160.

8. COVID-19

The Organization is closely monitoring the impact of the pandemic of the novel strain of coronavirus, known as COVID-19, on all aspects of its operations, including how it has impacted and may continue to impact the Organization's grants and contributions, employees, fundraising, and program services. The Organization did incur significant disruptions in its operations during the year ended December 31, 2020 from COVID-19 preventing travel and special events. Due to the uncertainties surrounding the COVID-19 pandemic, it is unable to predict the impact that COVID-19 will have on its financial position, contributions and cash flows in future periods.

9. NOTE PAYABLE

The Organization received a loan from Veritex Community Bank in the amount of \$64,925 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 14, 2020 and may be forgiven to the extent proceeds of the loan are used for eligible expenditures such as payroll and other expenses described in the CARES and the Consolidated Appropriations Act, 2021. No determination has been made as to whether the Organization will be eligible for forgiveness, in whole or in part. The loan matures on April 14, 2022, bears interest at a rate of 1 percent and is payable in equal monthly installments of principal and interest beginning at either (1) the date the Small Business Administration remits the Organization's loan forgiveness amount to the lender, or (2) 10 months after the end of the Organization's loan forgiveness covered period, whichever occurs first. For loans received before June 5, 2020, the loan matures two years from the date of issuance of the note unless the Organization and lender mutually agree to extend the loan maturity to five years. The loan may be repaid at any time with no prepayment penalty.