

**SEED EFFECT**  
**FINANCIAL STATEMENTS**  
**Years Ended December 31, 2021 and 2020**  
**with**  
**Independent Auditors' Report**

# SEED EFFECT

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Seed Effect

### **Opinion**

We have audited the accompanying financial statements of Seed Effect (the "Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2021 and 2020, 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 (GAAP).

### **Basis for Opinion**

We conducted our audits in accordance with GAAP. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibility for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Huselton, Morgan + Maultsby, P.C.*

Dallas, Texas  
April 11, 2022

**SEED EFFECT**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2021 and 2020**

**ASSETS**

	2021	2020
Cash and cash equivalents:		
Without donor restrictions	\$ 718,999	\$ 548,008
With donor restrictions	547,868	201,324
Total cash and cash equivalents	1,266,867	749,332
Pledges receivable, net	199,681	-
Prepaid expenses	4,660	3,981
Total assets	\$ 1,471,208	\$ 753,313

**LIABILITIES AND NET ASSETS**

Accounts payable and accrued liabilities	\$ 16,087	\$ 5,215
Note payable	-	64,925
Total liabilities	16,087	70,140
Net assets:		
Without donor restrictions	907,253	481,849
With donor restrictions	547,868	201,324
Total net assets	1,455,121	683,173
Total liabilities and net assets	\$ 1,471,208	\$ 753,313

**See accompanying notes to financial statements.**

**SEED EFFECT**  
**STATEMENT OF ACTIVITIES**  
**Year Ended December 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains, and other support:			
Contributions	\$ 1,321,753	\$ 718,084	\$ 2,039,837
Interest income	1,725	-	1,725
Net assets released from restriction	371,540	(371,540)	-
Total revenues, gains, and other support	1,695,018	346,544	2,041,562
Expenses:			
Program services	939,731	-	939,731
Management and general	244,928	-	244,928
Fundraising	149,880	-	149,880
Total expenses	1,334,539	-	1,334,539
Other income	64,925	-	64,925
Change in net assets	425,404	346,544	771,948
Net assets, beginning of year	481,849	201,324	683,173
Net assets, end of year	\$ 907,253	\$ 547,868	\$ 1,455,121

**See accompanying notes to financial statements.**

**SEED EFFECT**  
**STATEMENT OF ACTIVITIES**  
**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 restrictions	<u>270,191</u>	<u>(270,191)</u>	<u>-</u>
Total revenues, gains, and other support	<u>1,123,643</u>	<u>76,324</u>	<u>1,199,967</u>
Expenses:			
Program services	731,821	-	731,821
Management and general	171,547	-	171,547
Fundraising	<u>116,624</u>	<u>-</u>	<u>116,624</u>
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 FUNCTIONAL EXPENSES**  
**For the Year Ended December 31, 2021**

	<u>Supporting Activities</u>			<u>Total</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 147,934	\$ 117,110	\$ 137,030	\$ 402,074
Program related grants	780,077	-	-	780,077
Other expenses:				
Advertising	-	597	4,799	5,396
Insurance	-	2,456	71	2,527
IT	941	20,417	52	21,410
Miscellaneous	505	5,730	1,452	7,687
Office	-	22,771	1,287	24,058
Outside service	-	70,762	-	70,762
Rent	-	2,032	-	2,032
Special events	-	1,462	2,411	3,873
Travel and meetings	10,274	1,591	2,778	14,643
Total other expenses	<u>11,720</u>	<u>127,818</u>	<u>12,850</u>	<u>152,388</u>
Total expenses	<u>\$ 939,731</u>	<u>\$ 244,928</u>	<u>\$ 149,880</u>	<u>\$ 1,334,539</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	\$ 141,285	\$ 89,077	\$ 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	952	25,138	-	26,090
Miscellaneous	538	2,567	124	3,229
Office	-	8,310	3,412	11,722
Outside service	-	38,246	16	38,262
Rent	-	1,840	-	1,840
Travel and meetings	-	384	666	1,050
Special events	1,216	2,151	1,944	5,311
Total other expenses	2,706	82,854	9,681	95,241
Total expenses	731,821	171,931	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	\$ 731,821	\$ 171,547	\$ 116,624	\$ 1,019,992

See accompanying notes to financial statements.

**SEED EFFECT**  
**STATEMENTS OF CASH FLOWS**  
**For the Year Ended December 31, 2021 and 2020**

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 771,948	\$ 179,975
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Debt forgiveness	(64,925)	-
(Increase) decrease in pledge receivable	(199,681)	100,000
Decrease in employee receivable	-	1,346
(Decrease) increase in prepaid expenses	(679)	4,187
Increase in accounts payable and accrued liabilities	10,872	5,009
Net cash provided by operating activities	517,535	290,517
Cash flows from financing activities:		
Proceeds from note payable	-	64,925
Net cash provided by financing activities	-	64,925
Net increase in cash and cash equivalents:	517,535	355,442
Cash and cash equivalents, beginning of year	749,332	393,890
Cash and cash equivalents, end of year	\$ 1,266,867	\$ 749,332

Non-cash financing activities:

For the year ended December 31, 2021, the Organization's PPP loan totaling \$64,925 was forgiven by the U.S. Small Business Administration.

**See accompanying notes to financial statements.**

**SEED EFFECT**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2021 and 2020**

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 GAAP.

New Accounting Pronouncement

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, 2021, 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.

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 4 for further discussion.

Functional Allocation of Expenses

Directly identifiable expenses are charged to program services or supporting activities. Categories of expenses related to more than one function are charged to program and supporting activities on the basis of periodic time and expense studies.

Use of Estimates

The preparation of financial statements in accordance with GAAP 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.

### Pledges Receivable

Pledges receivable are recorded after being discounted to the anticipated net present value of the future cash flows and stated net of an allowance for doubtful accounts. The Organization provides for losses on pledges receivable using the allowance method. The allowance is based upon an analysis of specific donors, taking into consideration the age of past due amounts and an assessment of the donor's ability to pay.

### 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. It is the Organization's policy to liquidate donated stock immediately. 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, 2021 and 2020, advertising expense totals \$5,396 and \$5,706 respectively.

### Reclassification

Certain reclassifications have been made to the 2020 financial statement presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

### Subsequent Events

Management has reviewed subsequent events through April 11, 2022 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 Statement of Financial Position date, reduced by amounts not available for general use because of donor-imposed restrictions within one year of the Statement of Financial Position date. Amounts not available include amounts set aside for specific programs and a board designated emergency reserve.

Financial assets as of December 31, 2021	\$ 1,466,548
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	(547,868)
Pledges receivable, non-current	(99,681)
Board designations:	
Emergency reserve	<u>(175,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 643,999</u></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, 2021 and 2020, the emergency reserve fund totals \$175,000.

### 3. PLEDGES RECEIVABLE

Pledges receivable consist of the following as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Pledges receivable:		
Less than one year	\$ 100,000	\$ -
One to three years	<u>100,000</u>	<u>-</u>
	200,000	-
Less:		
Discount, from 0.17 to 0.47 percent	<u>(319)</u>	<u>-</u>
Total	<u>\$ 199,681</u>	<u>\$ -</u>

### 4. 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.

### 5. CONDITIONAL CONTRIBUTIONS RECEIVABLE

During 2021, the Organization received a conditional promise of \$1,000,000 due in three installments contingent upon the Organization accomplishing predetermined milestones determined by the donor. The first installment of \$350,000 was received during the fourth quarter of 2021 with the launch of 2 new branch offices and formation of a required number of savings groups. The second installment of \$400,000 is due in the fourth quarter 2022 and the third installment of \$250,000 is due in the fourth quarter 2023.

The \$400,000 payment is to be used to launch one new branch office and continue to support the first two expansion offices and is contingent upon:

- All key staff hired and trained in the first two expansion branches,
- 1,800 active savings group members served by the first two expansion branches, and
- \$100,000 raised or pledged and reserved for the ongoing funding of expansion branches.

The \$250,000 payment is to be used to continue support of the three expansion offices and provide a runway for the Organization to raise funding to sustain the new branches and is contingent upon:

- All key staff hired and trained in the third expansion branch office,
- 8,000 savings group members served by three expansion branches,
- \$100,000 in verified group member savings and 2,500 loans issued,
- 500 families able to add a daily meal, and
- \$450,000 raised or pledged to date and reserved for the ongoing funding of expansion branches.

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
KGF Expansion Fund	\$ 256,787	\$ -
Stateside Capacity Fund Fundraising	183,332	100,000
Stateside Capacity Fund Marketing	62,749	76,324
THF Fund	25,000	25,000
Savings Program Fund	<u>20,000</u>	<u>-</u>
Total	<u>\$ 547,868</u>	<u>\$ 201,324</u>

7. 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, 2021 and 2020, 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.

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

The Organization made contributions to Empower One in the amount of \$5,000 and \$0 for the years ended December 31, 2021 and 2020, respectively.

Contributions from the Organization's board members totaled \$37,422 and \$62,635 respectively, for the years ended December 31, 2021 and 2020. Contributions from the Organization's employees totaled \$772 and \$1,164 respectively, for the years ended December 31, 2021 and 2020.

9. 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.

10. 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. 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.

11. NOTE PAYABLE

The Organization received a loan from Veritex Community Bank in the amount of \$64,925 under the Paycheck Protection Program (“PPP”) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The loan is subject to a note dated April 14, 2020. The Company applied for and has been notified that \$64,925 in eligible expenditures for payroll and other expenses as described in the CARES Act and the Consolidated Appropriations Act, 2021 has been forgiven. Loan forgiveness for year-end December 31, 2021 is reflected as other income in the accompanying Statement of Activities.