

SEED EFFECT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017
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 corporation), which comprise the statements of financial position as of December 31, 2018 and 2017, 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.

Auditors' 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, 2018 and 2017, and the changes in its net assets and its functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Huselton, Morgan + Maultsby, P.C.

Dallas, Texas
March 25, 2019

SEED EFFECT
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS		2018	2017
Cash and cash equivalents:			
Without donor restrictions		\$ 348,749	\$ 462,977
With donor restrictions		148,000	39,893
Total cash and cash equivalents		496,749	502,870
Pledge receivable		40,000	-
Prepaid expenses		8,950	8,759
Total assets		\$ 545,699	\$ 511,629

LIABILITIES AND NET ASSETS			
Accounts payable and accrued liabilities		\$ 6,368	\$ 11,457
Total liabilities		6,368	11,457
Net assets:			
Without donor restrictions		391,331	460,279
With donor restrictions		148,000	39,893
Total net assets		539,331	500,172
Total liabilities and net assets		\$ 545,699	\$ 511,629

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues, gains, and other support:			
Contributions	\$ 444,297	\$ 308,970	\$ 753,267
Special events (less costs of direct benefit to donors of \$59,721)	171,242	-	171,242
Interest income	2,303	-	2,303
Net assets released from restriction	200,863	(200,863)	-
Total revenues, gains, and other support	<u>818,705</u>	<u>108,107</u>	<u>926,812</u>
Expenses:			
Program services	634,353	-	634,353
Management and general	112,842	-	112,842
Fundraising	140,458	-	140,458
Total expenses	<u>887,653</u>	<u>-</u>	<u>887,653</u>
Change in net assets	(68,948)	108,107	39,159
Net assets, beginning of year	<u>460,279</u>	<u>39,893</u>	<u>500,172</u>
Net assets, end of year	<u>\$ 391,331</u>	<u>\$ 148,000</u>	<u>\$ 539,331</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2017

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and other support:			
Contributions	\$ 522,625	\$ 74,950	\$ 597,575
Special events (less costs of direct benefit to donors of \$51,155)	46,570	-	46,570
Interest income	2,163	-	2,163
Net assets released from restrictions	87,124	(87,124)	-
Total revenues and other support	<u>658,482</u>	<u>(12,174)</u>	<u>646,308</u>
Expenses:			
Program services	471,152	-	471,152
Management and general	110,261	-	110,261
Fundraising	114,510	-	114,510
Total expenses	<u>695,923</u>	<u>-</u>	<u>695,923</u>
Change in net assets	(37,441)	(12,174)	(49,615)
Net assets, beginning of year	<u>497,720</u>	<u>52,067</u>	<u>549,787</u>
Net assets, end of year	<u>\$ 460,279</u>	<u>\$ 39,893</u>	<u>\$ 500,172</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	<u>Supporting Activities</u>			Total
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 129,990	\$ 46,299	\$ 109,414	\$ 285,703
Program related grants	424,290	-	-	424,290
Other expenses:				
Advertising	-	5,628	13,119	18,747
Insurance	-	1,891	-	1,891
IT	844	3,593	-	4,437
Miscellaneous	13	4,504	475	4,992
Office	86	5,512	6,905	12,503
Outside service	80	42,021	10,400	52,501
Rent	-	94	-	94
Travel and meetings	79,050	3,300	145	82,495
Special events	18	164	59,539	59,721
Total other expenses	<u>80,091</u>	<u>66,707</u>	<u>90,583</u>	<u>237,381</u>
Total expenses	634,371	113,006	199,997	947,374
Less expenses included with revenues on the statement of activities	<u>(18)</u>	<u>(164)</u>	<u>(59,539)</u>	<u>(59,721)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 634,353</u>	<u>\$ 112,842</u>	<u>\$ 140,458</u>	<u>\$ 887,653</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2017

	Program Services	Supporting Activities		Total
		Management and General	Fundraising	
Salaries and benefits	\$ 158,612	\$ 53,244	\$ 102,404	\$ 314,260
Program related grants	288,622	-	-	288,622
Other expenses:				
Advertising	-	5,111	2,251	7,362
Insurance	-	2,000	-	2,000
IT	554	12,502	-	13,056
Miscellaneous	28	2,675	701	3,404
Office	624	5,780	5,827	12,231
Outside service	-	27,534	-	27,534
Rent	-	900	9	909
Travel and meetings	22,712	515	3,318	26,545
Special events	-	119	51,036	51,155
Total other expenses	<u>23,918</u>	<u>57,136</u>	<u>63,142</u>	<u>144,196</u>
Total expenses	471,152	110,380	165,546	747,078
Less expenses included with revenues on the statement of activities	<u>-</u>	<u>(119)</u>	<u>(51,036)</u>	<u>(51,155)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 471,152</u>	<u>\$ 110,261</u>	<u>\$ 114,510</u>	<u>\$ 695,923</u>

See accompanying notes to financial statements.

SEED EFFECT
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 39,159	\$ (49,615)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase in pledge receivable	(40,000)	-
Increase in prepaid expenses	(191)	(4,535)
(Decrease) increase in accounts payable and accrued liabilities	(5,089)	3,909
Net cash used by operating activities	(6,121)	(50,241)
Cash flows from financing activities:		
Payments of reserve for related party	-	(31,293)
Net cash used by financing activities	-	(31,293)
Net decrease in cash and cash equivalents:	(6,121)	(81,534)
Cash and cash equivalents, beginning of year	502,870	584,404
Cash and cash equivalents, end of year	\$ 496,749	\$ 502,870

See accompanying notes to financial statements.

SEED EFFECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

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. In 2016, the Organization pursued this mission by providing financial and technical support to Seed Effect Community Services (“SECS”), a South Sudanese National Organization and related party. In 2017, the Organization relocated their mission focus to Uganda 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.

Contributions and Promises to Give

Contributions, including unconditional promises to give, are recognized in the period received. 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. The Organization does not solicit conditional promises to give. 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.

New Accounting Pronouncements

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented as of and for the year ended December 31, 2017. The new standards change the following aspects of the Organization's financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 2).

The changes have the following effect on net assets as of December 31, 2017:

<u>Net Asset Class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$ 460,279	\$ -
Temporarily restricted net assets	39,893	-
Net assets without donor restrictions	-	460,279
Net assets with donor restrictions	-	39,893
Total net assets	<u>\$ 500,172</u>	<u>\$ 500,172</u>

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, 2018 and 2017 advertising expense totals \$18,747 and \$7,362, respectively.

Subsequent Events

Management has reviewed subsequent events through March 25, 2019, 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	\$ 536,749
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	(148,000)
Board designations:	
Emergency reserve	<u>(175,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 213,749</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, Seed Effect 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 Seed Effect'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, 2018 and 2017, the emergency reserve fund totals \$175,000 and \$70,000, respectively.

3. IN-KIND DONATIONS

Donated materials and services recognized in the financial statements for the years ended December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Bottles of wine	\$ 1,600	\$ 1,752
Software	559	-
Photo frames	-	1,908
Total	<u>\$ 2,159</u>	<u>\$ 3,660</u>

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, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Savings group program	\$ 120,000	\$ 8,693
THF Fund	25,000	-
Imvepi	3,000	-
Yumbe/Bidi Bidi	-	30,000
August 2017 Trip	-	1,200
Total	<u>\$ 148,000</u>	<u>\$ 39,893</u>

5. OPERATING LEASE

The Organization leases office space on a month to month basis. In addition, a related party reimburses the Organization for a portion of the rent expense for partial use of the office space. See Note 7 for further information. Rent expense for the years ended December 31, 2018 and 2017 totals \$94 and \$909, respectively.

6. 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, 2018 and 2017, 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.

7. 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 2018 and 2017, two members of the Organization's Board of Directors also served on the board of directors for Empower One.

For the years ended December 31, 2018 and 2017, Empower One reimbursed the Organization for office space and related expenses and internet services totaling \$0 and \$8,380, respectively. The reimbursement income offsets the related expenses in the Statements of Activities and the Statements of Functional Expenses.

Contributions to the Organization by the Organization's board members total \$22,826 and \$14,443, respectively, for the years ended December 31, 2018 and 2017.

During 2015, the Board of Directors approved the Organization to hold \$19,707 in a reserve account for SECS until December 31, 2018, or until otherwise directed by the Board of Directors. During 2016, the Board of Directors approved the Organization to hold an additional \$11,586 in the account. The reserve account totaling \$31,293 was paid to SECS on January 20, 2017.

8. 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, 2018 is \$190,485.