

SEED EFFECT
FINANCIAL STATEMENTS
For the Years Ended December 31, 2019 and 2018
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, 2019 and 2018, 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, 2019 and 2018, 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.

Huseltan, Morgan + Maultsby, P.C.

Dallas, Texas
March 25, 2020

SEED EFFECT
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

ASSETS		
	2019	2018
Cash and cash equivalents:		
Without donor restrictions	\$ 268,890	\$ 348,749
With donor restrictions	125,000	148,000
Total cash and cash equivalents	393,890	496,749
Pledge receivable	100,000	40,000
Employee receivable	1,346	-
Prepaid expenses	8,168	8,950
Total assets	\$ 503,404	\$ 545,699
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	\$ 206	\$ 6,368
Total liabilities	206	6,368
Net assets:		
Without donor restrictions	378,198	391,331
With donor restrictions	125,000	148,000
Total net assets	503,198	539,331
Total liabilities and net assets	\$ 503,404	\$ 545,699

See accompanying notes to financial statements.

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

	Without Donor Restrictions	With Donor Restrictions	Total
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 restriction	259,395	(259,395)	-
Total revenues, gains, and other support	1,050,370	(23,000)	1,027,370
Expenses:			
Program services	758,330	-	758,330
Management and general	154,056	-	154,056
Fundraising	151,117	-	151,117
Total expenses	1,063,503	-	1,063,503
Change in net assets	(13,133)	(23,000)	(36,133)
Net assets, beginning of year	391,331	148,000	539,331
Net assets, end of year	\$ 378,198	\$ 125,000	\$ 503,198

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 restrictions	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 FUNCTIONAL EXPENSES

For the Year Ended December 31, 2019

	Supporting Activities			Total
	Program Services	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	63,455	89,020	89,078	241,553
Total expenses	758,459	153,742	207,130	1,119,331
Less expenses included with revenues on the statement of activities	(129)	314	(56,013)	(55,828)
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

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2018

	Supporting Activities			Total
	Program Services	Management and General	Fundraising	
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	80,091	66,707	90,583	237,381
Total expenses	634,371	113,006	199,997	947,374
Less expenses included with revenues on the statement of activities	(18)	(164)	(59,539)	(59,721)
Total expenses included in the expense section of the statement of activities	\$ 634,353	\$ 112,842	\$ 140,458	\$ 887,653

See accompanying notes to financial statements.

SEED EFFECT
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (36,133)	\$ 39,159
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Increase in pledge receivable	(60,000)	(40,000)
Increase in employee receivable	(1,346)	-
Increase (decrease) in prepaid expenses	782	(191)
Decrease in accounts payable and accrued liabilities	(6,162)	(5,089)
Net cash used by operating activities	(102,859)	(6,121)
Net decrease in cash and cash equivalents:	(102,859)	(6,121)
Cash and cash equivalents, beginning of year	496,749	502,870
Cash and cash equivalents, end of year	\$ 393,890	\$ 496,749

See accompanying notes to financial statements.

SEED EFFECT
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

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.

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. In comparison to the year ended December 31, 2018, there was no effect of adopting the new accounting principles.

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.

During the year ended December 31, 2019, the Organization received a conditional promise to give totaling \$25,000. The stipulations of the conditional contribution are for the Organization to raise contributions from new donors up to \$25,000 during 2020, which will be matched on a dollar for dollar basis.

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, 2019 and 2018, advertising expense totals \$12,854 and \$18,747, respectively.

Subsequent Events

Management has reviewed subsequent events through March 25, 2020, 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	\$ 493,890
Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Restricted by donor with purpose restrictions	(125,000)
Board designations:	
Emergency reserve	<u>(175,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 193,890</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, 2019 and 2018, the emergency reserve fund totals \$175,000.

3. IN-KIND DONATIONS

Donated materials and services recognized in the financial statements for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Bottles of wine	\$ -	\$ 1,600
Software	-	559
Total	<u>\$ -</u>	<u>\$ 2,159</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, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Stateside Capacity Fund	\$ 100,000	\$ -
THF Fund	25,000	25,000
Savings Program Fund	-	120,000
Imvepi Fund	-	3,000
Total	<u>\$ 125,000</u>	<u>\$ 148,000</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, 2019 and 2018, 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 2019 and 2018, two members of the Organization's Board of Directors also served on the board of directors for Empower One.

Contributions to the Organization by the Organization's board members totaled \$69,840 and \$22,826, respectively, for the years ended December 31, 2019 and 2018. Contributions to the Organization by the Organization's employees totaled \$3,942 and \$0, respectively, for the years ended December 31, 2019 and 2018.

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 \$1,346 and \$0, respectively, for the years ended December 31, 2019 and 2018.

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, 2019 is \$117,102.