



Mustard Seed
Communities

CARING FOR THE MOST VULNERABLE

FINANCIAL STATEMENTS
DECEMBER 31, 2014 AND 2013

MUSTARD SEED COMMUNITIES, INC.

Contents
December 31, 2014 and 2013

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Alexander, Crosson, Fenning & Co., P.C.

Wellesley, Massachusetts
April 14, 2015

MUSTARD SEED COMMUNITIES, INC.Statements of Financial Position
December 31, 2014 and 2013

| Assets | 2014 | 2013 |
|--|---------------------|---------------------|
| Current Assets: | | |
| Cash | \$ 1,538,304 | \$ 1,004,805 |
| Certificates of deposit | 86,584 | 86,544 |
| Current portion of pledges receivable | 154,155 | 448,525 |
| Prepaid expenses and other | 21,931 | 21,440 |
| Total current assets | <u>1,800,974</u> | <u>1,561,314</u> |
| Pledges Receivable, net of current portion and allowance | <u>56,063</u> | <u>68,572</u> |
| Computer Equipment | 8,756 | 6,376 |
| Less - accumulated depreciation | <u>5,923</u> | <u>5,434</u> |
| Net computer equipment | <u>2,833</u> | <u>942</u> |
| Total assets | <u>\$ 1,859,870</u> | <u>\$ 1,630,828</u> |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | <u>\$ 16,376</u> | <u>\$ 12,725</u> |
| Net Assets: | | |
| Unrestricted: | | |
| Operating | 612,405 | 390,292 |
| Equipment | <u>2,833</u> | <u>942</u> |
| Total unrestricted | 615,238 | 391,234 |
| Temporarily restricted | <u>1,228,256</u> | <u>1,226,869</u> |
| Total net assets | <u>1,843,494</u> | <u>1,618,103</u> |
| Total liabilities and net assets | <u>\$ 1,859,870</u> | <u>\$ 1,630,828</u> |

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2014 and 2013

| | 2014 | | | 2013 | | |
|--|--------------|------------------------|--------------|--------------|------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Total | Unrestricted | Temporarily Restricted | Total |
| Support and Revenue and Special Events: | | | | | | |
| Special events: | | | | | | |
| Event contributions and support | \$ 396,005 | \$ - | \$ 396,005 | \$ 353,947 | \$ - | \$ 353,947 |
| Less - direct expenses | (77,456) | - | (77,456) | (74,399) | - | (74,399) |
| Net revenues from special events | 318,549 | - | 318,549 | 279,548 | - | 279,548 |
| Contributions and support - cash | 2,143,832 | 658,230 | 2,802,062 | 2,090,280 | 734,578 | 2,824,858 |
| Contributions and support - donated | 501,260 | - | 501,260 | 710,019 | - | 710,019 |
| Interest and other | 4,942 | - | 4,942 | 2,519 | - | 2,519 |
| Net assets released from restrictions | 656,843 | (656,843) | - | 496,210 | (496,210) | - |
| Total support and revenue | 3,625,426 | 1,387 | 3,626,813 | 3,578,576 | 238,368 | 3,816,944 |
| Operating Expenses: | | | | | | |
| Program expenses: | | | | | | |
| Grants and aid: | | | | | | |
| Cash | 2,370,085 | - | 2,370,085 | 2,302,931 | - | 2,302,931 |
| Donated | 501,260 | - | 501,260 | 710,019 | - | 710,019 |
| Total grants and aid | 2,871,345 | - | 2,871,345 | 3,012,950 | - | 3,012,950 |
| Personnel, related and other | 172,428 | - | 172,428 | 165,337 | - | 165,337 |
| Total program expenses | 3,043,773 | - | 3,043,773 | 3,178,287 | - | 3,178,287 |
| Administration | 144,395 | - | 144,395 | 131,249 | - | 131,249 |
| Fundraising | 213,254 | - | 213,254 | 201,306 | - | 201,306 |
| Total operating expenses | 3,401,422 | - | 3,401,422 | 3,510,842 | - | 3,510,842 |
| Changes in net assets | 224,004 | 1,387 | 225,391 | 67,734 | 238,368 | 306,102 |
| Net Assets: | | | | | | |
| Beginning of year | 391,234 | 1,226,869 | 1,618,103 | 323,500 | 988,501 | 1,312,001 |
| End of Year | \$ 615,238 | \$ 1,228,256 | \$ 1,843,494 | \$ 391,234 | \$ 1,226,869 | \$ 1,618,103 |

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|---------------------|---------------------|
| Cash Flows from Operating Activities: | | |
| Changes in net assets | \$ 225,391 | \$ 306,102 |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 489 | 338 |
| Bad debt | - | 3,231 |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 306,879 | (372,272) |
| Prepaid expenses and other | (491) | (19,516) |
| Accounts payable and accrued expenses | 3,651 | 5,434 |
| Net cash provided by (used in) operating activities | <u>535,919</u> | <u>(76,683)</u> |
| Cash Flows from Investing Activities: | | |
| Maturity of certificates of deposit | 86,544 | 86,402 |
| Purchase of certificates of deposit | (86,584) | (86,544) |
| Purchase of equipment | (2,380) | (1,169) |
| Net cash used in investing activities | <u>(2,420)</u> | <u>(1,311)</u> |
| Net Change in Cash | 533,499 | (77,994) |
| Cash: | | |
| Beginning of year | <u>1,004,805</u> | <u>1,082,799</u> |
| End of year | <u>\$ 1,538,304</u> | <u>\$ 1,004,805</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cost basis of fully depreciated equipment disposed | <u>\$ -</u> | <u>\$ 5,151</u> |

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2014 and 2013

| | 2014 | | | | 2013 | | | |
|-----------------------------|---------------------|---------------------|-------------------|---------------------|---------------------|---------------------|-------------------|---------------------|
| | Program | Adminis- tration | Fundraising | Total | Program | Adminis- tration | Fundraising | Total |
| Operating Expenses: | | | | | | | | |
| Personnel and related: | | | | | | | | |
| Salaries and wages | \$ 104,633 | \$ 56,470 | \$ 103,027 | \$ 264,130 | \$ 101,374 | \$ 52,887 | \$ 92,873 | \$ 247,134 |
| Payroll taxes | 8,506 | 4,699 | 8,392 | 21,597 | 8,691 | 4,436 | 8,297 | 21,424 |
| Employee benefits | 803 | 532 | 4,990 | 6,325 | 1,145 | 32 | 4,629 | 5,806 |
| Recruitment | - | 639 | 5,000 | 5,639 | - | - | 5,926 | 5,926 |
| Total personnel and related | <u>113,942</u> | <u>62,340</u> | <u>121,409</u> | <u>297,691</u> | <u>111,210</u> | <u>57,355</u> | <u>111,725</u> | <u>280,290</u> |
| Grants and aid: | | | | | | | | |
| Cash | 2,370,085 | - | - | 2,370,085 | 2,302,931 | - | - | 2,302,931 |
| Donated | 501,260 | - | - | 501,260 | 710,019 | - | - | 710,019 |
| Total grants and aid | <u>2,871,345</u> | <u>-</u> | <u>-</u> | <u>2,871,345</u> | <u>3,012,950</u> | <u>-</u> | <u>-</u> | <u>3,012,950</u> |
| Other: | | | | | | | | |
| Professional fees | - | 43,219 | 466 | 43,685 | - | 38,808 | 515 | 39,323 |
| Donation processing fees | - | - | 42,539 | 42,539 | - | - | 35,019 | 35,019 |
| Financial and internet fees | 10,571 | 14,681 | 12,659 | 37,911 | 11,657 | 14,197 | 14,581 | 40,435 |
| Mission trips - other | 25,249 | - | - | 25,249 | 21,816 | - | - | 21,816 |
| Travel | 9,814 | 1,921 | 5,595 | 17,330 | 6,086 | 1,915 | 5,941 | 13,942 |
| Printing and publications | 498 | 595 | 14,427 | 15,520 | - | 236 | 16,459 | 16,695 |
| Occupancy | 5,760 | 2,880 | 5,760 | 14,400 | 5,760 | 2,880 | 5,760 | 14,400 |
| Postage | - | 2,698 | 6,102 | 8,800 | - | 2,513 | 7,070 | 9,583 |
| Office and other | - | 7,846 | 678 | 8,524 | 264 | 4,438 | 272 | 4,974 |
| Telephone | 3,052 | 1,596 | 1,340 | 5,988 | 4,318 | 699 | 1,887 | 6,904 |
| Insurance | 704 | 4,207 | 331 | 5,242 | 476 | 4,029 | 340 | 4,845 |
| Miscellaneous | 588 | 1,923 | 1,498 | 4,009 | - | 610 | 987 | 1,597 |
| Website development | 2,250 | - | 450 | 2,700 | 3,750 | - | 750 | 4,500 |
| Depreciation | - | 489 | - | 489 | - | 338 | - | 338 |
| Bad debt | - | - | - | - | - | 3,231 | - | 3,231 |
| Total other | <u>58,486</u> | <u>82,055</u> | <u>91,845</u> | <u>232,386</u> | <u>54,127</u> | <u>73,894</u> | <u>89,581</u> | <u>217,602</u> |
| Total operating expenses | <u>\$ 3,043,773</u> | <u>\$ 144,395</u> | <u>\$ 213,254</u> | <u>\$ 3,401,422</u> | <u>\$ 3,178,287</u> | <u>\$ 131,249</u> | <u>\$ 201,306</u> | <u>\$ 3,510,842</u> |

The accompanying notes are an integral part of these statements.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

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 for the work of Mustard Seed International (MSC International) locations in Jamaica, Nicaragua, Zimbabwe, 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.

SIGNIFICANT ACCOUNTING POLICIES

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

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.

Revenue Recognition

Unrestricted contributions and support are recorded as revenue when received or unconditionally pledged. Restricted contributions and support are recorded as temporarily restricted revenue and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets 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 unrestricted net assets. All other revenue is recorded when earned or as services are provided.

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.

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, agencies, or by management (see Note 3).

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Events

Special events revenue is shown net of related direct expenses in the accompanying statements of activities and changes in net assets for the years ended December 31, 2014 and 2013.

Expense Allocation

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

Advertising

The Organization expenses advertising costs as incurred. Advertising costs of \$400 and \$245 for the years ended December 31, 2014 and 2013, respectively, are included in office and other in the accompanying statements of functional expenses.

Certificates of Deposit

The certificates of deposit (CDs) have initial maturities of eleven months. The CDs at December 31, 2014, mature on April 10, 2015, and June 29, 2015, and have interest rates of 0.03% and 0.05%. The CDs at December 31, 2013, matured on May 10, 2014, and July 29, 2014, and had an interest rate of 0.05%.

Pledges Receivable and Allowance for Uncollectible Accounts

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.

Computer Equipment and Depreciation

Computer equipment is recorded at cost. Donated computer equipment is recorded at fair value at the time of donation. Renewals and betterments 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 five years.

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. Any grants and aid that are due and not paid as of year-end in accordance with the predetermined payment schedule, are recorded as a liability of the Organization.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2014 and 2013. The Organization's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

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.

Subsequent Events

Subsequent events have been evaluated through April 14, 2015, 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.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

2. NET ASSETS

Unrestricted Net Assets

The Organization has grouped its unrestricted net assets 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.

Equipment reflects the net book value of the Organization's computer equipment.

Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2014 and 2013, are comprised of amounts received with donor restrictions which have not yet been expended. As of December 31, 2014 and 2013, temporarily restricted net assets are restricted as follows:

| | <u>2014</u> | <u>2013</u> |
|---------|---------------------|---------------------|
| Purpose | \$ 1,174,119 | \$ 1,138,351 |
| Time | <u>54,137</u> | <u>88,518</u> |
| | <u>\$ 1,228,256</u> | <u>\$ 1,226,869</u> |

3. GRANTS AND AID AND RELATED PARTIES

Non-Cash Donated

The Organization receives contributions of medical supplies, medicines, physical therapy equipment, vehicles, office equipment, stock, 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 these contributions. Information may be in the form of appraisals or the current fair value in the case of securities, which are readily marketable or listed on an exchange or quoted in an open market. The Organization has a policy to liquidate securities upon receipt. In the absence of the above, these contributions are stated at fair value as determined by the Organization.

Grants and aid - donated for the years ended December 31, 2014 and 2013, were as follows:

| | <u>2014</u> | <u>2013</u> |
|-----------------------------|-------------------|-------------------|
| Grants and aid - donated: | | |
| Medicines, clothes and food | \$ 459,484 | \$ 658,631 |
| Shipping fees | <u>41,776</u> | <u>51,388</u> |
| Total | <u>\$ 501,260</u> | <u>\$ 710,019</u> |

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

3. GRANTS AND AID AND RELATED PARTIES (Continued)

Cash Grants

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, 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>2014</u> | <u>2013</u> |
|---------------------------------------|------------------|------------------|
| Less than one year | \$ 154,155 | \$ 448,525 |
| One to three years | <u>58,838</u> | <u>71,803</u> |
| | 212,993 | 520,328 |
| Less - allowance for doubtful pledges | 2,775 | 3,231 |
| Less - current portion | <u>154,155</u> | <u>448,525</u> |
| Long-term pledges receivable, net | <u>\$ 56,063</u> | <u>\$ 68,572</u> |

No discount was recorded at December 31, 2014 or 2013, as it was immaterial to the accompanying financial statements.

5. LEASE AGREEMENTS

The Organization maintains its headquarters in Medfield, Massachusetts, under a lease with monthly payments of \$1,200 that expired on July 31, 2014. The Organization continues to lease the space as a tenant-at-will under the same terms. During fiscal years 2014 and 2013, the Organization incurred \$14,400 of rent expense associated with this lease.

6. COMMITMENTS

The Organization has a three year service contract for an online fundraising application expiring in November 2017. The contract requires fixed monthly payments of \$1,916 in the first year, \$2,013 in the second year and \$2,113 in the third year. These fees are reflected in financial and internet fees in the accompanying statements of functional expenses. Remaining minimum fixed quarterly payments under the contract are as follows:

| | |
|------|-----------|
| 2015 | \$ 23,091 |
| 2016 | \$ 24,245 |
| 2017 | \$ 23,239 |

This contract also includes a variable fee of zero to 5.5% of certain transactions processed online. The contract expires on November 30, 2017. These payments totaled \$42,539 and \$35,019 for the years ended December 31, 2014 and 2013, respectively, and are reflected as donation processing fees in the accompanying statements of functional expenses.

MUSTARD SEED COMMUNITIES, INC.

Notes to Financial Statements
December 31, 2014 and 2013

7. CONCENTRATIONS

Concentrations of Credit Risk

The Organization maintains its cash and certificate of deposit balances in three 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.

Concentrations of Pledges Receivable

Concentrations of pledges receivable are as follows for the years ended December 31:

| <u>Donor</u> | <u>2014</u> | <u>2013</u> |
|--------------|-------------|-------------|
| A | 16% | - % |
| B | - % | 38% |
| C | - % | 30% |