

Independent Auditor's Report

To the Board of Directors of
Seedling Foundation dba Seedling
Austin, Texas

Opinion

We have audited the accompanying financial statements of Seedling Foundation dba Seedling (“Seedling”) (a nonprofit organization), which comprise the statements of financial position as of July 31, 2022 and 2021, and the related statements of activities, functional expenses, and cash flows for the fiscal 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 Seedling Foundation dba Seedling as of July 31, 2022 and 2021, and the changes in its net assets and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Seedling 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 the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Seedling'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 Responsibilities 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, including omissions, 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 Seedling'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 Seedling'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.



Austin, Texas
January 10, 2023

Audited Financial Statements

Seedling Foundation dba Seedling

Statements of Financial Position

For the Fiscal Years Ended July 31, 2022 and 2021

| | <u>2022</u> | <u>2021</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 785,333 | \$ 612,615 |
| Accounts receivable | 16,292 | 5,548 |
| Pledges receivable with donor restrictions | 7,000 | 7,000 |
| Prepaid expenses | 26,779 | 16,932 |
| Total current assets | <u>835,404</u> | <u>642,095</u> |
| | | |
| Cash and cash equivalents with donor restrictions | 192,843 | 210,659 |
| Investments - endowment with Board designations | 1,384,771 | 1,440,195 |
| Investments - other | 663,040 | 384,000 |
| Property and equipment, net | <u>2,719</u> | <u>3,438</u> |
| | | |
| Total assets | <u>\$ 3,078,777</u> | <u>\$ 2,680,387</u> |
| | | |
| Liabilities and Net Assets | | |
| Current Liabilities: | | |
| Accounts payable | \$ 17,487 | \$ 10,284 |
| Accrued expenses | 2,522 | 3,356 |
| Scholarships payable, current portion | 60,139 | 55,532 |
| Total current liabilities | <u>80,148</u> | <u>69,172</u> |
| | | |
| Scholarships payable, less current portion | <u>90,000</u> | <u>85,000</u> |
| | | |
| Total liabilities | <u>170,148</u> | <u>154,172</u> |
| | | |
| Net Assets: | | |
| Without donor restrictions - undesignated | 1,324,015 | 868,361 |
| Without donor restrictions - designated for endowment | 1,384,771 | 1,440,195 |
| With donor restrictions | 199,843 | 217,659 |
| Total net assets | <u>2,908,629</u> | <u>2,526,215</u> |
| | | |
| Total liabilities and net assets | <u>\$ 3,078,777</u> | <u>\$ 2,680,387</u> |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Statement of Activities

For the Fiscal Year Ended July 31, 2022

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---------------------------------------|------------------------------------|---------------------|
| Public Support and Revenues: | | | |
| School district grants | \$ 533,250 | \$ - | \$ 533,250 |
| Contributions | 370,090 | 114,924 | 485,014 |
| City and county grants | 18,292 | - | 18,292 |
| In-kind contributions | 18,385 | - | 18,385 |
| Investment income | 241,053 | - | 241,053 |
| Total support and revenues | <u>1,181,070</u> | <u>114,924</u> | <u>1,295,994</u> |
| Special Events: | | | |
| Special events revenues | 339,958 | - | 339,958 |
| Special events expenses | (84,057) | - | (84,057) |
| Special events, net | <u>255,901</u> | <u>-</u> | <u>255,901</u> |
| Net assets released from donor restrictions | <u>132,740</u> | <u>(132,740)</u> | <u>-</u> |
| Total public support, revenues, and reclassifications | <u>1,569,711</u> | <u>(17,816)</u> | <u>1,551,895</u> |
| Expenses: | | | |
| Program services | 856,526 | - | 856,526 |
| Fundraising | 207,916 | - | 207,916 |
| General and administrative | 105,039 | - | 105,039 |
| Total expenses | <u>1,169,481</u> | <u>-</u> | <u>1,169,481</u> |
| Total change in net assets | 400,230 | (17,816) | 382,414 |
| Net assets, beginning of the fiscal year | <u>2,308,556</u> | <u>217,659</u> | <u>2,526,215</u> |
| Net assets, end of the fiscal year | <u>\$ 2,708,786</u> | <u>\$ 199,843</u> | <u>\$ 2,908,629</u> |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Statement of Activities

For the Fiscal Year Ended July 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---------------------------------------|------------------------------------|--------------|
| Public Support and Revenues: | | | |
| School district grants | \$ 520,000 | \$ - | \$ 520,000 |
| Contributions | 373,922 | 128,644 | 502,566 |
| City and county grants | 80,000 | - | 80,000 |
| In-kind contributions | 19,057 | - | 19,057 |
| Federal grant | 260 | - | 260 |
| Forgiveness of debt income | 146,200 | - | 146,200 |
| Investment income | 344,333 | - | 344,333 |
| Other income | 50 | - | 50 |
| Total support and revenues | 1,483,822 | 128,644 | 1,612,466 |
| Special Events: | | | |
| Special events revenues | 222,758 | - | 222,758 |
| Special events expenses | (54,389) | - | (54,389) |
| Special events, net | 168,369 | - | 168,369 |
| Net assets released from donor restrictions | 154,269 | (154,269) | - |
| Total public support, revenues, and reclassifications | 1,806,460 | (25,625) | 1,780,835 |
| Expenses: | | | |
| Program services | 894,955 | - | 894,955 |
| Fundraising | 185,078 | - | 185,078 |
| General and administrative | 84,985 | - | 84,985 |
| Total expenses | 1,165,018 | - | 1,165,018 |
| Total change in net assets | 641,442 | (25,625) | 615,817 |
| Net assets, beginning of the fiscal year | | | |
| as previously reported | 1,620,428 | 243,284 | 1,863,712 |
| Prior period adjustment | 46,686 | - | 46,686 |
| Net assets, beginning of the fiscal year, restated | 1,667,114 | 243,284 | 1,910,398 |
| Net assets, end of the fiscal year | \$ 2,308,556 | \$ 217,659 | \$ 2,526,215 |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Statement of Functional Expenses

For the Fiscal Year Ended July 31, 2022

| | <u>Scholarships</u> | <u>Outreach</u> | <u>Mentor Appreciatio</u> | <u>Mentoring</u> | <u>Total Program Services</u> | <u>Fundraising</u> | <u>General and Administrativ</u> | <u>Total</u> |
|-------------------------------------|---------------------|------------------|-------------------------------|-------------------|---------------------------------------|--------------------|--------------------------------------|---------------------|
| Salaries and wages | \$ 1,666 | \$ 37,063 | \$ 150 | \$ 540,988 | \$ 579,867 | \$ 137,064 | \$ 46,298 | \$ 763,229 |
| Payroll taxes | 127 | 2,835 | 11 | 47,317 | 50,290 | 11,983 | 3,810 | 66,083 |
| Employee benefits | 128 | 2,848 | 12 | 41,563 | 44,551 | 10,531 | 3,556 | 58,638 |
| Professional fees | 300 | 2,100 | 12,950 | 19,247 | 34,597 | 4,039 | 33,078 | 71,714 |
| Facility and equipment | - | - | 3 | 27,549 | 27,552 | 7,836 | 10,507 | 45,895 |
| Technology subscriptions | - | 1,040 | 20 | 28,614 | 29,674 | 6,027 | 287 | 35,988 |
| Grants and scholarships | 35,852 | - | - | - | 35,852 | - | - | 35,852 |
| Other expenses | - | 8,435 | - | 5,149 | 13,584 | 12,254 | 3,142 | 28,980 |
| Consultants and contractors | - | 2,085 | - | 14,445 | 16,530 | 10,789 | - | 27,319 |
| Operational expenses | 5 | 1,027 | 3,276 | 7,368 | 11,676 | 5,946 | 1,764 | 19,386 |
| Travel and meetings | 179 | 1,725 | 20 | 3,354 | 5,278 | 1,447 | 1,340 | 8,065 |
| Stipends | - | - | - | 7,075 | 7,075 | - | - | 7,075 |
| Depreciation | - | - | - | - | - | - | 719 | 719 |
| Bad debt expense | - | - | - | - | - | - | 538 | 538 |
| Total expenses | \$ 38,257 | \$ 59,158 | \$ 16,442 | \$ 742,669 | \$ 856,526 | \$ 207,916 | \$ 105,039 | \$ 1,169,481 |
| Percentage of total expenses | 3% | 5% | 1% | 64% | 73% | 18% | 9% | 100% |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Statement of Functional Expenses

For the Fiscal Year Ended July 31, 2021

| | <u>Scholarships</u> | <u>Outreach</u> | <u>Mentor Appreciatio</u> | <u>Mentoring</u> | <u>Total Program Services</u> | <u>Fundraising</u> | <u>General and Administrative</u> | <u>Total</u> |
|------------------------------|---------------------|------------------|-------------------------------|-------------------|---------------------------------------|--------------------|---------------------------------------|---------------------|
| Salaries and wages | \$ - | \$ 42,766 | \$ 3,055 | \$ 557,478 | \$ 603,299 | \$ 123,467 | \$ 42,790 | \$ 769,556 |
| Payroll taxes | - | 3,512 | 273 | 48,591 | 52,376 | 10,828 | 3,475 | 66,679 |
| Employee benefits | - | 2,389 | 169 | 29,586 | 32,144 | 6,884 | 3,225 | 42,253 |
| Professional fees | - | 3,502 | 5,763 | 34,898 | 44,163 | 3,236 | 12,890 | 60,289 |
| Grants and scholarships | 47,000 | - | - | - | 47,000 | - | - | 47,000 |
| Facility and equipment | - | 39 | 4 | 27,132 | 27,175 | 9,215 | 6,118 | 42,508 |
| Technology subscriptions | - | 1,128 | - | 27,663 | 28,791 | 6,792 | 1,050 | 36,633 |
| Other expenses | - | 18,420 | - | 2,873 | 21,293 | 6,206 | 2,301 | 29,800 |
| Consultants and contractors | - | 715 | - | 16,415 | 17,130 | 10,010 | 320 | 27,460 |
| Operational expenses | - | 105 | 1,067 | 6,782 | 7,954 | 8,056 | 1,797 | 17,807 |
| Stipends | - | - | - | 10,550 | 10,550 | - | - | 10,550 |
| Bad debt expense | - | - | - | - | - | - | 10,000 | 10,000 |
| Travel and meetings | - | 644 | - | 2,436 | 3,080 | 384 | 300 | 3,764 |
| Depreciation | - | - | - | - | - | - | 719 | 719 |
| Total expenses | \$ 47,000 | \$ 73,220 | \$ 10,331 | \$ 764,404 | \$ 894,955 | \$ 185,078 | \$ 84,985 | \$ 1,165,018 |
| Percentage of total expenses | 4% | 6% | 1% | 66% | 77% | 16% | 7% | 100% |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Statements of Cash Flows

For the Fiscal Years Ended July 31, 2022 and 2021

| | 2022 | 2021 |
|--|------------|------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 382,414 | \$ 615,817 |
| Adjustments to reconcile change in net assets to net cash flow from operating activities: | | |
| Depreciation | 719 | 719 |
| Forgiveness of debt income | - | (146,200) |
| Unrealized gains | (208,232) | (333,299) |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | (10,744) | 20,585 |
| Pledges receivable | - | (7,000) |
| Prepaid expenses | (9,847) | 1,204 |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 7,203 | 8,660 |
| Scholarship payable | 9,607 | 20,304 |
| Accrued expenses | (834) | (3,723) |
| Net cash provided by operating activities | 170,286 | 177,067 |
| Cash flows from investing activities: | | |
| Purchases of investments - endowment with Board designations | (15,384) | (262,240) |
| Proceeds from the sales of investments - endowment with Board designations | - | 246,966 |
| Net cash used in investing activities | (15,384) | (15,274) |
| Net change in cash and cash equivalents | 154,902 | 161,793 |
| Cash and cash equivalents, beginning of the fiscal year | 823,274 | 661,481 |
| Cash and cash equivalents, end of the fiscal year | \$ 978,176 | \$ 823,274 |
| Cash and cash equivalents consist of: | | |
| Cash and cash equivalents | \$ 785,333 | \$ 612,615 |
| Cash and cash equivalents with donor restrictions | 192,843 | 210,659 |
| Total cash and cash equivalents | \$ 978,176 | \$ 823,274 |

The accompanying notes are an integral part of these financial statements.

Seedling Foundation dba Seedling

Notes to Financial Statements

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies

This summary of significant accounting policies of Seedling Foundation dba Seedling (hereafter referred to as “Seedling”) is presented to assist in understanding Seedling’s financial statements. The financial statements and notes are representations of Seedling’s management who is responsible for their integrity and objectivity. These accounting policies and principles conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Seedling’s mission is to mitigate the impact of parental incarceration on children in Central Texas through school-based mentoring. Seedling has a long history of providing support to Austin Area public schools. In 2006, concerned Austin ISD school principals requested help for a growing population in their schools of children who had an incarcerated parent. In response, the Seedling Mentor Program was launched. The vision was to provide support, encouragement, information, and a nonjudgmental adult role model for children separated from one or both of their parents as a result of a prison sentence.

From the beginning, Seedling set the standard very high: The Seedling Mentor Program would be a research informed mentor program, serving only children who have an incarcerated parent, doing so only in a school setting, and providing the kind of support volunteer mentors would need to cultivate impactful, long-term relationships.

Due to the effects of the pandemic, Seedling is working hard to serve the number of children it served during the 2019-20 school year just before the pandemic hit in March 2020. A total of 470 children received mentoring in 129 schools during the 2021-22 school year. 50% of these children were in elementary school, 36% in middle school and 14% were in high school. 68% of the students attended schools in Austin ISD. 94% of the children mentored were considered financially disadvantaged, and 93% of the children were Hispanic, African American or multi race.

For Seedling mentees, the average length of participation in the program was three years and five months. 72% of Seedling mentees were still participating in their original match relationship with the mentor. Seedling mentor-mentee match relationships far exceeded the national average of 12 months for a match relationship. Seedling’s mentor retention rate was 70% despite the pandemic.

Seedling participates in an independent program evaluation to measure its program outcomes. The evaluation measures student persistence, personal development skills, school engagement, attendance, and disciplinary referrals. These outcomes are indicators of whether the mentoring program has mitigated the impacts of the adverse childhood experience of parental incarceration.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Nature of Activities (continued)

Seedling's most recent independent evaluation found that a significant majority of mentees reported positive outcomes in the various measures. For the 2021-22 school year, 97% of Seedling mentees achieved positive outcomes in three of the five outcome areas, an increase from 87% the previous year. Seedling also compares the results for its mentees to the results of a similar population group of students who do not have an incarcerated parent. Seedling mentees performed at a very similar level in all areas to the comparison group with the exception of disciplinary referrals.

The pandemic interrupted services and adversely impacted students who have a parent in prison. Seedling strongly believes that mentoring will continue to aid our students in recovering from the adverse childhood experiences of having a parent in prison and the added difficulties from the pandemic.

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. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred.

Basis of Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Financial statement presentation follows the recommendations of the *Not-for-Profit Entities* Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). Accordingly, net assets of Seedling and changes therein are classified and reported as follows:

Net assets without donor restrictions – These types of net assets are not subject to donor-imposed stipulations. This also includes net assets with Board designations for specific purposes, since these Board designations may be reversed by the Board of Directors at any time in the future.

Net assets with donor restrictions – These types of net assets are subject to donor-imposed stipulations, which limit their use by Seedling, either permanently or temporarily, to a specific purpose and/or the passage of time. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from donor restrictions.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity 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.

Cash and Cash Equivalents

Seedling considers all cash and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents, unless designated for investment or endowment purposes.

Accounts Receivable

Seedling records accounts receivable on the accrual basis at the amount expected to be collected on outstanding balances. Seedling has not set up an allowance for uncollectible receivables as of July 31, 2022 and 2021, because management estimates that the receivables are collectible, and write-offs are historically unusual and small.

Pledges Receivable

Pledges are recognized as revenues when the donor's commitment is received. Pledges are recognized at the estimated present value of the future net cash flows, net of allowances. Seedling has not set up an allowance for uncollectible pledges as of July 31, 2022 and 2021, because management estimates that the pledges are collectible, and write-offs are historically unusual and small.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Any donated items are recorded at their estimated fair value. When assets are retired, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in the period. Maintenance and repairs are charged to expense as incurred, and significant renewals and betterments are capitalized. Seedling has a policy of only capitalizing depreciable assets purchased at or over \$1,000, expensing items falling below that amount. Furniture and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from 3 to 7 years.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Investments

Seedling accounts for its investments in accordance with FASB ASC 958-320, *Not-for-Profit Entities –Investments – Debt and Equity Securities*, and FASB ASC 958-325, *Not-for-Profit Entities –Investments – Other*. Under FASB ASC 958-320, Seedling is required to report investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is based on quoted market prices. Under FASB ASC 958-325, partnership interests and stocks in closely held companies are recorded at cost or fair value at the dates the investments are donated and are periodically revalued through the use of a third party. Changes in value are shown as unrealized gains or losses on the statements of activities. FASB ASC 958-325 allows the fair value of a cost method investment to be excluded from estimation if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value and Seedling does not estimate the fair value of financial instruments either because (1) it is not practicable to estimate fair value or (2) Seedling is exempt from estimating fair value. Additionally, Seedling reviews all its investments and makes a determination if any is considered impaired for reporting purposes.

Donated Materials, Facilities, and Services

Donated property and services are recorded at fair market value on the date of the donation as in-kind contributions if all qualifications for reporting have been met. For donated services those requirements include enhancing a nonfinancial asset or services that require specialized skills. The value of Seedling's volunteer services is not recorded in these financial statements because they do not meet the criteria. However, Seedling receives a significant amount of donated services from unpaid volunteers who assist in direct services, fund-raising, and special projects. During the 2021/2022 and 2020/2021 school years, Seedling estimated to have 7,520 and 2,000 volunteer hours which amounts to approximately \$225,224 and \$57,080 based on the Independent Sector's estimate for volunteer hours of \$29.95 and \$28.54 per hour, all respectively.

Federal Income Taxes

Seedling is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code, except to the extent of unrelated business income, if any.

The most significant tax positions of Seedling are its assertion that it is exempt from income taxes and its determination of whether any amounts are subject to unrelated business income tax (UBIT). Management of Seedling has determined they didn't have any unrelated business income during the fiscal years ended July 31, 2022 and 2021. All significant tax positions have been considered by management and it has determined that it is more likely than not that all tax positions would be sustained upon examination by taxing authorities.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Federal Income Taxes (continued)

Seedling is required to file Form 990 (Return of Organization Exempt from Income Tax), which is subject to examination by the IRS generally up to three years from the later of the original due date or the date the tax return was filed. The Forms 990 for the fiscal years ended July 31, 2021, 2020, and 2019 are open to examination by the IRS as of July 31, 2022.

Grants, Contributions and Other Support

All grants and contributions are available for use without donor restriction unless specifically restricted by the donor. When donor restrictions expire, that is, when a stipulated time restriction ends or donor restricted purpose is accomplished, the related net assets with donor restrictions are reclassified to net assets without donor restrictions. This is reported in the statements of activities as net assets released from donor restrictions.

Allocation of Expenses

The expense information contained in the statements of activities is presented on a functional basis. Accordingly, certain expenses are allocated among the programs and supporting services benefited. Expenses which cannot be specifically identified have been allocated based on management's best estimate of usage. Salaries and wages, payroll taxes, and employee benefits are allocated based on estimated time spent by the employees for each function. Facility and equipment expenses are allocated based on estimated space and equipment usage. Depreciation is allocated on estimated usage in each function.

Date of Management's Review

These financial statements considered subsequent events through January 10, 2023, the date the financial statements were available to be issued.

Fair Value of Financial Instruments

Seedling follows FASB ASC 820, *Fair Value Measurements and Disclosures*, which relates to Seedling's financial assets and liabilities carried at fair value and Seedling's fair value disclosures related to financial assets and liabilities. FASB ASC 820 defines fair value, expands related disclosure requirements, and specifies a hierarchy of valuation techniques based on the nature of the inputs used to develop the fair value measures. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

There are three levels of inputs to fair value measurements – Level 1, meaning the use of quoted prices for identical instruments in active markets; Level 2, meaning the use of quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active or are directly or indirectly observable; and Level 3, meaning the use of unobservable inputs.

Seedling’s financial instruments consist principally of cash and cash equivalents, cash and cash equivalents with donor restrictions, accounts receivable, pledges receivable with donor restrictions, investments – endowment with Board designations, investments – other, accounts payable, accrued expenses, and scholarships payable. Seedling believes all of the financial instruments’ recorded values approximate current market values.

Reclassifications

Certain 2021 amounts have been reclassified in order to conform to the 2022 financial statement presentation.

Note 2 – Prior Period Adjustment

During the fiscal year ended July 31, 2021, management discovered that the scholarships payable accounts were overstated on the financial statements as of July 31, 2020 due to not recording the amount of scholarships that had been forfeited. The net assets without donor restrictions balance as of July 31, 2020 has been restated to reflect a \$46,686 increase due to the overstated scholarships payable balance.

Note 3 – Pledges Receivable

Pledges receivable at July 31, 2022 and 2021 were considered fully collectible. No allowances have been recorded in these financial statements. Due to the immaterial amount of the calculated present value discount as of July 31, 2022 and 2021, no discounts to present value are reflected in the financial statements.

Pledges receivable comprised the following as of July 31, 2022 and 2021:

| | 2022 | 2021 |
|--------------------------|------------------------|------------------------|
| Due within one year | <u>\$ 7,000</u> | <u>\$ 7,000</u> |
| Total pledges receivable | <u><u>\$ 7,000</u></u> | <u><u>\$ 7,000</u></u> |

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 4 – Concentration of Credit Risk

Financial instruments which potentially subject Seedling to credit risk principally consist of cash and cash equivalents and investments. To minimize the risk, Seedling places its cash and cash equivalents and investments with high credit quality financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) and the Securities Investor Protection Corporation (SIPC). Effective January 1, 2013, deposit insurance coverage by the FDIC changed to \$250,000 per bank per entity for all interest bearing and non-interest-bearing accounts. Securities are protected by the SIPC which currently protects brokerage accounts of each entity up to \$500,000 in securities. Additional coverage is frequently offered by brokerage accounts for amounts in excess of the \$500,000 SIPC limit. As of July 31, 2022 and 2021, Seedling had uninsured cash balances of \$765 and \$0, respectively. Seedling has not experienced any losses in these accounts in the past.

Seedling is subject to market risk related to its investments. Seedling's investments are exposed to various risks, such as interest rate, market, and credit risks.

Note 5 – Risks and Uncertainties

On March 13, 2020, the Government of the United States declared the COVID-19 Pandemic ("COVID-19") as a national emergency. COVID-19 has caused a significant impact on the United States economy affecting various businesses in different ways. COVID-19 may have an impact on future programming and events being held. Seedling does not have insurance to cover the loss of revenues from these events in the case of a Pandemic. However, no adjustments have been made to these financial statements as a result of this uncertainty. See Note 10 for disclosure of the PPP loan received in response to COVID-19.

Note 6 – Seedling Foundation Endowment

During the fiscal year ended July 31, 2015, Seedling created the Seedling Foundation Endowment (Endowment) to provide a long-term source of funds for the operations of Seedling. The Endowment consists of funds designated as net assets without donor restrictions and can be used to meet withdrawals authorized by the Board of Directors of Seedling. The Board of Directors of Seedling interpret the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original designation as of the date of the designated endowment funds absent explicit Board stipulations to the contrary. Net assets with donor restrictions are classified at the original value of gifts donated to the permanent endowment, plus the original value of subsequent gifts to the endowment. Also included are accumulations to the permanent endowment if directed by the donor gift instrument. The remaining portion of the donor restricted endowment fund is classified as net assets with donor restrictions until those funds are appropriated for expenditure by Seedling in a manner consistent with the standard of prudence prescribed by the UPMIFA. Currently, the Endowment includes only Board designated funds.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 6 – Seedling Foundation Endowment (continued)

Seedling has investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under the endowment policy approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results as stated in Seedling’s policy while assuming a moderate level of investment risk. Seedling expects its endowment funds, over time, to provide a rate of return of approximately 300 basis points over the Consumer Price Index (“CPI”) over a rolling three-year period. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, Seedling relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). Seedling targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives with prudent risk constraints.

Seedling has a policy to withdraw funds from the portion without donor restrictions of the Endowment each year to support the operations of Seedling. The withdrawals can be lump sum or spread out over the fiscal year. In determining the total amount to withdraw from the Endowment in any given fiscal year, the Board of Directors incorporates the seven factors outlined in the UPMIFA. The Board of Directors approves the spending amount at the beginning of each fiscal year based on a documented analysis of all seven factors.

During the fiscal years ended July 31, 2022 and 2021, Seedling’s Board designated an additional \$0 and \$249,173, respectively, to the Seedling Foundation Endowment. Changes in endowment net assets were as follows for the fiscal years ended July 31, 2022 and 2021:

| | |
|---|----------------------------|
| Endowment net assets at July 31, 2020 | \$ 979,056 |
| Designations | 249,173 |
| Investment gains, net of fees of \$12,183 | 211,966 |
| Appropriated for expense | - |
| Endowment net assets at July 31, 2021 | <u>\$ 1,440,195</u> |
| Designations | - |
| Investment losses, including fees of \$14,484 | (55,424) |
| Appropriated for expense | - |
| Endowment net assets at July 31, 2022 | <u><u>\$ 1,384,771</u></u> |

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 7 – Fair Value of Financial Instruments

Financial instruments are stated at fair market value and summarized as follows for the fiscal year ended July 31, 2022:

| Description | Fair Value | Fair Value Measurements Using: | | |
|---------------------------|---------------------|--|--|--|
| | | Quoted Prices in Active Markets for Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | \$ 45,856 | \$ - | \$ 45,856 | \$ - |
| Bonds | 426,097 | 426,097 | - | - |
| Equity securities | 875,533 | 875,533 | - | - |
| Exchange traded funds | 37,285 | 37,285 | - | - |
| Other investments | 663,040 | - | - | 663,040 |
| Total Investments | \$ 2,047,811 | \$ 1,338,915 | \$ 45,856 | \$ 663,040 |

Financial instruments are stated at fair market value and summarized as follows for the fiscal year ended July 31, 2021:

| Description | Fair Value | Fair Value Measurements Using: | | |
|---------------------------|---------------------|--|--|--|
| | | Quoted Prices in Active Markets for Identical (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents | \$ 10,876 | \$ - | \$ 10,876 | \$ - |
| Bonds | 563,485 | 563,485 | - | - |
| Equity securities | 798,342 | 798,342 | - | - |
| Exchange traded funds | 51,368 | 51,368 | - | - |
| REIT fund | 16,124 | 16,124 | - | - |
| Other investments | 384,000 | - | - | 384,000 |
| Total Investments | \$ 1,824,195 | \$ 1,429,319 | \$ 10,876 | \$ 384,000 |

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 7 – Fair Value of Financial Instruments (continued)

The following is a reconciliation of other investments (Level 3) for the fiscal years ended July 31, 2022 and 2021:

| | | | |
|--------------------------|----|----------------|--|
| Balance at July 31, 2020 | \$ | 249,600 | |
| Change in value | | 134,400 | |
| Balance at July 31, 2021 | \$ | 384,000 | |
| Change in value | | 279,040 | |
| Balance at July 31, 2022 | \$ | 663,040 | |

Other investments consist of 128,000 shares of A series stock in a privately owned company. The fair value of the shares was \$1.95 per share at the date of the contribution that occurred in a prior year. The original value per share was determined by the company's sale of its A series stock to raise capital. As of July 31, 2022 and 2021, the value per share of the company's A series stock was revalued at \$5.18 and \$3, respectively, per share based on the company's latest 409a valuation when issuing shares to the company's workers. Nothing has occurred to the company that would require a downward adjustment to Seedling's other investment's fair value as of July 31, 2022 and 2021.

Note 8 – Property and Equipment

At July 31, 2022 and 2021, property and equipment consisted of the following:

| | 2022 | 2021 |
|--------------------------------|------------------|-------------|
| Furniture and equipment | \$ 12,543 | \$ 12,543 |
| Less: accumulated depreciation | (9,824) | (9,105) |
| Property and equipment, net | \$ 2,719 | \$ 3,438 |

Depreciation expense totaled \$719 for each of the fiscal years ended July 31, 2022 and 2021.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 9 – Scholarships Payable

Scholarships payable are the amounts of scholarships that Seedling has committed to give to students upon their graduation from high school and acceptance to a facility of higher learning. Seedling recognizes the scholarships expense in the fiscal year the students are notified of the awards and recognizes the scholarships as an unconditional promise to give since the likelihood of the students not graduating is believed to be remote. No discount or allowance has been recorded in the amounts below as the amounts, if recorded, would be considered immaterial to the financial statements.

Seedling has segregated the cash for future scholarship payments in a separate cash account.

The following is a summary of the future payments of scholarships payable as of July 31, 2022:

| <u>Fiscal Year Ending July 31,</u> | |
|---|-------------------|
| 2023 | \$ 60,139 |
| 2024 | 50,000 |
| 2025 | 15,000 |
| 2026 | <u>25,000</u> |
| Total scholarships payable | <u>\$ 150,139</u> |

Note 10 – Note Payable

In April 2020, Seedling was granted a note from American Bank of Commerce in the aggregate amount of \$146,200, pursuant to the Paycheck Protection Program (“PPP”) under the Coronavirus Aid, Relief and Economic Security (“CARES”) Act, which was enacted on March 27, 2020. The note was dated April 11, 2020 and was set to mature on April 11, 2022. It bore interest at a rate of 1% per annum and monthly payments of \$8,277 were due starting on November 11, 2020. However, payments were automatically deferred to either: (1) the date that the Small Business Administration (SBA) remits the borrowers forgiveness amount to the lender or (2) if the borrower does not apply for loan forgiveness, 10 months after the end of the borrower’s loan forgiveness coverage period. Funds from the loan were only to be used for payroll costs, rent, utilities, and interest on other debt obligations incurred before February 2020. Seedling used the entire advance amount for qualifying expenses and accounted for it under FASB ASC 470 as debt. Under the terms of the PPP program, certain amounts of the note would be forgiven if they were used for qualifying expenses as described in the CARES Act and the Paycheck Protection Flexibility Act, which was enacted on June 5, 2020 and modified certain provisions of the CARES Act. The loan balance of \$146,200 was fully forgiven by the SBA on November 2, 2020 and was recognized as forgiveness of debt income on the statements of activities during the fiscal year ended July 31, 2021.

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 11 – Lease Commitments

Seedling entered into a lease agreement for office space in Austin, Texas beginning August 2015. Base rent escalated from an initial rate of \$2,119 per month to \$2,578 per month at the end of the term, July 2022. Effective August 1, 2022, Seedling extended the office space lease through July 2027 with a base rent of \$2,582 increasing annually. Additional rent might be payable over the term for actual building operating expenses over a certain dollar threshold. Seedling also entered into an operating lease agreement for office equipment in June 2016. The equipment lease was auto renewed through March 2022 at which time Seedling entered into a new office equipment lease through March 2027.

The total future minimum lease payments under operating leases as of July 31, 2022 are as follows:

For the Fiscal Year Ending July 31,

| | |
|------|------------|
| 2023 | \$ 32,662 |
| 2024 | 33,456 |
| 2025 | 34,251 |
| 2026 | 35,036 |
| 2027 | 35,281 |
| | <hr/> |
| | \$ 170,686 |

Rental expense for these two operating leases totaled \$41,231 and \$39,155, respectively, for the fiscal years ended July 31, 2022 and 2021.

Note 12 – Net Assets With Donor Restrictions

Seedling had the following activity in net assets with donor restrictions during the fiscal year ended July 31, 2022:

| | Beginning Balance | Additions | Releases | Ending Balance |
|--------------------|------------------------------|------------------|-----------------|---------------------------|
| Specified Purpose: | | | | |
| Scholarships | \$ 198,659 | \$ 10,440 | \$ (21,640) | \$ 187,459 |
| Pledges | 7,000 | - | - | 7,000 |
| Mentoring program | 5,000 | 90,000 | (95,000) | - |
| Technology support | 7,000 | 14,484 | (16,100) | 5,384 |
| | <hr/> | | | |
| Total | \$ 217,659 | \$ 114,924 | \$ (132,740) | \$ 199,843 |

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 12 – Net Assets With Donor Restrictions (continued)

Seedling had the following activity in net assets with donor restrictions during the fiscal year ended July 31, 2021:

| | Beginning Balance | Additions | Releases | Ending Balance |
|---------------------|------------------------------|-------------------|---------------------|---------------------------|
| Specified Purpose: | | | | |
| Scholarships | \$ 180,557 | \$ 26,644 | \$ (8,542) | \$ 198,659 |
| Pledges | 25,585 | 2,000 | (20,585) | 7,000 |
| Mentoring program | 30,000 | 90,000 | (115,000) | 5,000 |
| COVID-19 assistance | 7,142 | - | (7,142) | - |
| Technology support | - | 10,000 | (3,000) | 7,000 |
| Total | \$ 243,284 | \$ 128,644 | \$ (154,269) | \$ 217,659 |

Note 13 – Net Assets Without Donor Restrictions - Designated

Seedling had the following activity in net assets without donor restrictions - designated during the fiscal year ended July 31, 2022:

| | Beginning Balance | Additions | Earnings / (Losses) | Releases | Ending Balance |
|-------------------|------------------------------|------------------|--------------------------------|--------------------|---------------------------|
| Board Designated: | | | | | |
| Endowment | \$ 1,440,195 | \$ - | \$ (40,940) | \$ (14,484) | \$ 1,384,771 |
| Total | \$ 1,440,195 | \$ - | \$ (40,940) | \$ (14,484) | \$ 1,384,771 |

Seedling had the following activity in net assets without donor restrictions - designated during the fiscal year ended July 31, 2021:

| | Beginning Balance | Additions | Earnings / (Losses) | Releases | Ending Balance |
|-------------------|------------------------------|-------------------|--------------------------------|--------------------|---------------------------|
| Board Designated: | | | | | |
| Endowment | \$ 979,056 | \$ 249,173 | \$ 224,149 | \$ (12,183) | \$ 1,440,195 |
| Total | \$ 979,056 | \$ 249,173 | \$ 224,149 | \$ (12,183) | \$ 1,440,195 |

Seedling Foundation dba Seedling

Notes to Financial Statements (continued)

For the Fiscal Years Ended July 31, 2022 and 2021

Note 14 – Liquidity and Availability of Financial Assets

Seedling’s working capital and cash flows are related to timing of receipts of project income, grants, and donations.

The following reflects Seedling’s financial assets as of the statements of financial position date, reduced by amounts not available for general use within one year of the statements of financial position date because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for expenditure in the following year. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors of Seedling approves that action.

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 785,333 | \$ 612,615 |
| Cash and cash equivalents with donor restrictions | 192,843 | 210,659 |
| Accounts receivable collectible within one year | 16,292 | 5,548 |
| Pledges receivable with donor restrictions collectible within one year | <u>7,000</u> | <u>7,000</u> |
| Total financial assets | 1,001,468 | 835,822 |
| With donor restrictions | <u>(199,843)</u> | <u>(217,659)</u> |
| Financial Assets Available to Meet Cash Needs For Expenditures Within One Year | <u>\$ 801,625</u> | <u>\$ 618,163</u> |

Note 15 – Retirement Plan

Seedling has entered into a 403(3) plan for the benefit of its employees effective December 1, 2021. Employees may participate in the plan if they meet minimum age and service requirements. The plan calls for Seedling to make matching contributions up to a discretionary percentage determined by management (currently, 1.5% of employee’s salary after the employee completes one year of employment). In addition, Seedling may make discretionary employer contributions. Participants become fully vested in employer contributions after three years. During the fiscal year ended July 31, 2022, Seedling made contributions to the plan totaling \$7,369.