

# **The Mustard Seed Project of Key Peninsula**

Financial Statements and  
Independent Auditors' Reports

June 30, 2022 and 2021



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

**The Mustard Seed Project of Key Peninsula  
Table of Contents**

	<b>Page</b>
<i>INDEPENDENT AUDITORS' REPORT</i>	1-3
<i>FINANCIAL STATEMENTS:</i>	
Statements of financial position	4
Statements of activities	5-6
Statements of cash flows	7-8
Notes to financial statements	9-19
<i>SINGLE AUDIT:</i>	
<i>AUDITORS' SECTION:</i>	
<i>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	20-21
<i>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</i>	22-24
Schedule of audit findings and questioned costs	25-26
<i>AUDITEE'S SECTION</i>	
Schedule of expenditures of federal awards	27
Corrective action plan	28
Summary schedule of prior audit findings	29



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
The Mustard Seed Project of Key Peninsula  
Vaughn, Washington

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the accompanying financial statements of The Mustard Seed Project of Key Peninsula (a not-for-profit organization) (the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Prior Period Financial Statements***

The 2021 financial statements were reviewed by us, and our report thereon, dated January 14, 2022, stated that we are not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements.

#### ***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.

### ***Responsibilities of Management for the Financial Statements (continued)***

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

### **Auditors' 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 auditors' 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 GAAS and *Government 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 GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2023, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
February 14, 2023

**The Mustard Seed Project of Key Peninsula  
Statements of Financial Position  
June 30, 2022 and 2021**

<b>ASSETS</b>	<b>(Audited) 2022</b>	<b>(Reviewed) 2021</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 92,186	\$ 147,145
Pledges receivable	36,204	35,947
<b>Total current assets</b>	<b>128,390</b>	<b>183,092</b>
<i>Noncurrent assets</i>		
Cash and cash equivalents limited as to use	90,088	90,439
Cash and cash equivalents restricted for capital projects	777,718	194,517
Investments held by Greater Tacoma Community Foundation	2,653,865	-
Property, furniture, and equipment, net	8,458,658	2,125,321
<b>Total noncurrent assets</b>	<b>11,980,329</b>	<b>2,410,277</b>
<b>Total assets</b>	<b>\$ 12,108,719</b>	<b>\$ 2,593,369</b>
<b>LIABILITIES AND NET ASSETS</b>		
<i>Current liabilities</i>		
Accounts payable	\$ 55,914	\$ 96,715
Capital accounts payable	1,615,369	-
Accrued compensation and related liabilities	35,673	23,553
Current maturities of long-term debt	8,058	7,743
<b>Total current liabilities</b>	<b>1,715,014</b>	<b>128,011</b>
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	560,134	416,374
Construction loan payable	1,640,151	-
Paycheck Protection Program loan	-	57,496
<b>Total noncurrent liabilities</b>	<b>2,200,285</b>	<b>473,870</b>
<b>Total liabilities</b>	<b>3,915,299</b>	<b>601,881</b>
<i>Net assets</i>		
Without donor restrictions	4,725,633	1,761,024
With donor restrictions	3,467,787	230,464
<b>Total net assets</b>	<b>8,193,420</b>	<b>1,991,488</b>
<b>Total liabilities and net assets</b>	<b>\$ 12,108,719</b>	<b>\$ 2,593,369</b>

*See accompanying notes to financial statements.*

**The Mustard Seed Project of Key Peninsula  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2022 (Audited)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<i>Revenue and support</i>			
Contributions	\$ 77,622	\$ 3,481,523	\$ 3,559,145
Grants	2,983,540	-	2,983,540
Special event income, less direct expenses of \$20,969	96,977	-	96,977
Transportation services	17,348	-	17,348
Rental income	24,267	-	24,267
Investment return, net	737	3,865	4,602
Gain on forgiveness of Paycheck Protection Program loan	57,496	-	57,496
<b>Total revenue and support</b>	<b>3,257,987</b>	<b>3,485,388</b>	<b>6,743,375</b>
<i>Net assets released from restriction</i>	248,065	(248,065)	-
<i>Expenses</i>			
Program services	304,330	-	304,330
Management and general	119,592	-	119,592
Fundraising	117,521	-	117,521
<b>Total expenses</b>	<b>541,443</b>	<b>-</b>	<b>541,443</b>
<i>Change in net assets</i>	2,964,609	3,237,323	6,201,932
<i>Net assets, beginning of year</i>	1,761,024	230,464	1,991,488
<b>Net assets, end of year</b>	<b>\$ 4,725,633</b>	<b>\$ 3,467,787</b>	<b>\$ 8,193,420</b>

*See accompanying notes to financial statements.*

**The Mustard Seed Project of Key Peninsula  
Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2021 (Reviewed)**

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<i>Revenue and support</i>			
Contributions	\$ 168,453	\$ 587,771	\$ 756,224
Grants	183,299	-	183,299
Special event income, less direct expenses of \$21,024	26,893	-	26,893
Transportation services	17,348	-	17,348
Rental income	26,423	-	26,423
Interest income	69	-	69
Gain on forgiveness of Paycheck Protection Program loan	49,650	-	49,650
<b>Total revenue and support</b>	<b>472,135</b>	<b>587,771</b>	<b>1,059,906</b>
<i>Net assets released from restriction</i>	571,748	(571,748)	-
<i>Expenses</i>			
Program services	289,756	-	289,756
Management and general	164,201	-	164,201
Fundraising	118,160	-	118,160
<b>Total expenses</b>	<b>572,117</b>	<b>-</b>	<b>572,117</b>
<i>Change in net assets</i>	471,766	16,023	487,789
<i>Net assets, beginning of year</i>	1,289,258	214,441	1,503,699
<b>Net assets, end of year</b>	<b>\$ 1,761,024</b>	<b>\$ 230,464</b>	<b>\$ 1,991,488</b>

*See accompanying notes to financial statements.*



**The Mustard Seed Project of Key Peninsula  
Statements of Cash Flows  
Years Ended June 30, 2022 and 2021**

	(Audited) 2022	(Reviewed) 2021
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Cash received from contributions	\$ 3,558,888	\$ 731,810
Cash received from grants	2,983,540	183,299
Cash received from investment income	4,602	-
Cash provided by special events	96,977	26,893
Cash received from other sources	41,615	43,840
Cash paid for employee salaries and benefits	(334,158)	(298,134)
Cash paid for interest	(17,457)	(36,996)
Cash paid for other expenses	(196,399)	(176,087)
Net cash from operating activities	<b>6,137,608</b>	474,625
<i>Cash flows from investing activities</i>		
Sales or maturity of investments	(3,865)	-
Purchases of investments	(2,650,000)	-
Purchase of property, furniture, and equipment	(4,739,719)	(75,566)
Net cash from investing activities	<b>(7,393,584)</b>	(75,566)
<i>Cash flows from financing activities</i>		
Proceeds from the Paycheck Protection Program loan	-	57,496
Proceeds from issuance of long-term debt	150,000	440,000
Proceeds from construction loan	1,640,151	-
Principal payments on long-term debt	(6,284)	(725,000)
Net cash from financing activities	<b>1,783,867</b>	(227,504)
Net increase in cash and cash equivalents	<b>527,891</b>	171,555
Cash and cash equivalents, beginning of year	<b>432,101</b>	260,546
<b>Cash and cash equivalents, end of year</b>	<b>\$ 959,992</b>	<b>\$ 432,101</b>
<i>Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position</i>		
Cash and cash equivalents	\$ 92,186	\$ 147,145
Cash and cash equivalents limited as to use	90,088	90,439
Cash and cash equivalents restricted for capital projects	777,718	194,517
<b>Total cash and cash equivalents</b>	<b>\$ 959,992</b>	<b>\$ 432,101</b>

*See accompanying notes to financial statements.*

**The Mustard Seed Project of Key Peninsula  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2022 and 2021**

	(Audited) 2022	(Reviewed) 2021
<b><i>Reconciliation of Change in Net Assets to Net Cash From Operating Activities</i></b>		
Change in net assets	\$ 6,201,932	\$ 487,789
<i>Adjustments to reconcile change in net assets to net cash from operating activities</i>		
Depreciation	21,751	18,540
Debt issuance costs	359	(3,728)
Amortization of debt issuance costs	-	16,016
Gain on forgiveness of Paycheck Protection Program loan	(57,496)	(49,650)
(Increase) decrease in assets:		
Pledges receivable	(257)	(24,414)
Prepaid expenses	-	5,548
Increase (decrease) in liabilities:		
Accounts payable	(40,801)	4,406
Accrued compensation and related liabilities	12,120	20,118
<b>Net cash from operating activities</b>	<b>\$ 6,137,608</b>	<b>\$ 474,625</b>

*See accompanying notes to financial statements.*

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements  
Years Ended June 30, 2022 and 2021**

**1. Organization and Summary of Significant Accounting Policies:**

**a. Organization**

The Mustard Seed Project of Key Peninsula (the Organization) was founded in 2006 and operated under the fiscal sponsorship of The Franciscan Foundation until February 25, 2011, when it received its own 501(c)(3) status from the Internal Revenue Service. The Mustard Seed Project of Key Peninsula is a nonprofit organization whose mission is to assure that the full continuum of high quality, affordable services and programs are available to meet the needs of the aging Key Peninsula residents, so that they can “age in place.” The Organization is supported primarily through grants and contributions from local foundations, individuals, businesses, and government agencies.

**b. Summary of Significant Accounting Policies**

***Basis of presentation*** – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: with and without donor restrictions.

***Use of estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization 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 amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Cash and cash equivalents*** – The Organization considers cash and cash equivalents to be cash in checking accounts, savings accounts, and money market accounts.

***Property, furniture, and equipment*** – The Organization capitalizes all expenditures for property, furniture, and equipment in excess of \$1,000 and all expenditures for repairs and maintenance, renewals, and betterments that prolong the useful lives of assets are capitalized.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

- |                           |                |
|---------------------------|----------------|
| • Building                | 10 to 39 years |
| • Furniture and equipment | 5 to 8 years   |

***Investments held by Greater Tacoma Community Foundation*** – Investments consist of accounts in pooled investments at Greater Tacoma Community Foundation (GTCF) which reports to participants the fund balances at fair market values. Investment return (including realized gains and losses, unrealized gains and losses, interest, dividends, and expenses) is included in the changes in net assets with donor restrictions.

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**1. Organization and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

***Net assets with donor restrictions*** – Net assets with donor restrictions are those whose use by the Organization has been restricted by donors to a specific time period or purpose. The net assets with donor restrictions are restricted for a capital campaign to construct a senior residential care center, address isolation of residents, and provide financial assistance to residents.

***Contributions and pledges*** – Contributions and pledges to give are recognized as with or without donor restrictions, depending on the existence and/or nature of the donor restrictions.

Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities.

All pledges to give are expected to be collected within one year.

***Contributed goods and services*** – Many individuals volunteer their time and perform a variety of tasks that assist the Organization in delivery of services. No amounts have been reflected in the financial statements for these donated services.

***Credit risk concentration*** – The Organization may, at times, have balances that exceed federally insured deposit limits. Management has not experienced any losses and believes there is minimal risk associated with these cash balances.

***Functional expenses allocation*** – The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited on a reasonable basis that is consistently applied. The expenses that are allocated include the salaries and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation, repairs and maintenance, interest, taxes, utilities, and cleaning expenses which are allocated on a square-footage basis.

***Federal income tax*** – The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is necessary. The Organization evaluates uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of June 30, 2022 and 2021, the Organization had no uncertain tax positions requiring accrual.

***Reclassifications*** – Certain amounts have been reclassified in the 2021 financial statements in order to be consistent with the 2022 financial statements. These reclassifications had no effect on previously reported change in net assets.

***Subsequent events*** – Subsequent events have been reviewed through February 14, 2023, the date on which the financial statements were available to be issued.

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**1. Organization and Summary of Significant Accounting Policies (continued):**

**b. Summary of Significant Accounting Policies (continued)**

*Upcoming accounting standard pronouncement* – In February 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), which supersedes the current lease requirements in Accounting Standards Codification (ASC) 840. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either finance or operating, with the classification affecting the pattern of expense recognition in the statements of activities and changes in net assets. Currently, leases are classified as either capital or operating, with only capital leases recognized on the statements of financial position. The reporting of lease-related expenses in the statements of activities and changes in net assets and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization’s year ending June 30, 2023, and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The new lease standard is expected to have a significant effect on the financial statements as a result of the leases for rented office space and medical equipment being reported as liabilities on the statements of financial position. The effect of applying the new lease guidance on the financial statements will be to increase long-term assets and to increase short-term and long-term lease liabilities. The effects on the results of operations are not expected to be significant as recognition and measurement of expenses and cash flows for leases will be substantially the same under the new standard.

**2. Liquidity and Availability of Financial Assets:**

The Organization’s financial assets available within one year of the statements of financial position date for general expenditure are as follows:

	(Audited) 2022	(Reviewed) 2021
Cash and cash equivalents	\$ 92,186	\$ 147,145
<b>Financial assets available to meet cash needs for general expenditures within one year</b>	<b>\$ 92,186</b>	<b>\$ 147,145</b>

The Organization also has a committed line of credit in the amount of \$20,000, which it could draw upon in the event of an unanticipated liquidity need.

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**3. Fair Value Measurements:**

The three levels of the fair value hierarchy are described below:

- **Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2** – Quoted prices in markets that are not considered to be active or financial instruments without quoted market prices, but for which all significant inputs are observable, either directly or indirectly.
- **Level 3** – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with the other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

All investments held by the Greater Tacoma Community Foundation (GTCF) are deemed to be Level 3 investments.

**4. Investments held by Greater Tacoma Community Foundation:**

The Organization made an irrevocable transfer of \$2,650,000 to GTCF for the setup of two funds; The Mustard Seed Project Agency Fund (the Agency Fund) and The Mustard Seed Project Benevolence Fund (the Benevolence Fund) (collectively, the Funds). The Funds are held in pooled investment accounts at GTCF, a not-for-profit community foundation.

The Benevolence Fund provides financial assistance to residents. The Agency Fund provides assistance for addressing isolation of seniors through funding activities and transportation and assist with the construction and maintenance of the Crandall Center.

The investments are exposed to various risk such as interest rate, market risk, and credit risk. Due to the level of risk associated with these investments and the level of uncertainty related to changes in value, it is at least reasonably possible that changes in various risk factors will occur in the near term that could materially affect the Organization's investment account balances and the amounts reported in the accompanying financial statements. GTCF has variance power over these funds.

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**4. Investments held by Greater Tacoma Community Foundation (continued):**

Investment activity consisted of the following amounts:

	(Audited) 2022	(Reviewed) 2021
<b>Agency Fund</b>		
Investments at beginning of year	\$ -	\$ -
Additional amounts invested	1,900,000	-
Interest and dividends	651	-
Realized gains	17	-
Unrealized gains	1,959	-
Less management fees	(98)	-
	<b>1,902,529</b>	<b>-</b>
<b>Benevolence Fund</b>		
Investments at beginning of year	-	-
Additional amounts invested	750,000	-
Interest and dividends	110	-
Realized losses	(2)	-
Unrealized gains	1,269	-
Less management fees	(41)	-
	<b>751,336</b>	<b>-</b>
<b>Investments held by Greater Tacoma Community Foundation</b>	<b>\$ 2,653,865</b>	<b>\$ -</b>

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**5. Property, Furniture, and Equipment:**

Property, furniture, and equipment consisted of the following:

	<b>(Audited)</b>	<b>(Reviewed)</b>
	<b>2022</b>	<b>2021</b>
Building	\$ 487,988	\$ 419,102
Furniture and equipment	39,750	39,750
	<b>527,738</b>	458,852
Less accumulated depreciation	<b>(87,715)</b>	(65,964)
	<b>440,023</b>	392,888
Land	<b>653,000</b>	653,000
Construction in progress	<b>7,365,635</b>	1,079,433
<b>Property, furniture, and equipment, net</b>	<b>\$ 8,458,658</b>	<b>\$ 2,125,321</b>

Construction in progress consists of construction and development costs related to a senior residential care center (the Project). The construction is expected to be completed in January 2023, for an approximate cost of \$6,890,000. The Project is financed through a construction loan in the amount of \$7,800,000 from a commercial bank and the remaining \$5,692,000 through contributions, debt financing, and capital campaign funds.

**6. Line of Credit:**

The Organization has an unsecured \$20,000 line-of-credit arrangement with a bank that matures on November 5, 2023. The Organization uses the line of credit for short-term working capital periodically throughout the year. There was no outstanding balance as of June 30, 2022. The interest rate in effect at June 30, 2022, was 8.5 percent.



**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**7. Long-term Debt:**

Long-term debt consisted of the following:

	(Audited) 2022	(Reviewed) 2021
Notes payable to various investors: Payable quarterly on a pro rata basis calculated as a percentage of each participant's original note. Quarterly payments ranging from \$15,909 to \$2,026 will begin August 2024, including interest at 4 percent through August 2029. Balloon payments representing remaining unpaid principal and interest are due August 2029.	\$ 150,000	\$ -
Note payable to Washington Community Reinvestment Association: Payable \$2,101 per month, including interest at 4 percent through May 2031; secured by a deed of trust on an administrative building in Vaughn, Washington. A balloon payment representing remaining unpaid principal and interest is due May 2031.	433,716	440,000
Total	583,716	440,000
Debt issuance costs	(15,524)	(15,883)
Total	568,192	424,117
Less current maturities	8,058	7,743
<b>Long-term debt</b>	<b>\$ 560,134</b>	<b>\$ 416,374</b>

Future principal maturities of long-term debt are:

Years Ending June 30,	Long-term Debt
2023	\$ 8,058
2024	8,387
2025	8,728
2026	9,084
2027	9,454
Thereafter	540,005
	<b>\$ 583,716</b>

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**8. Contingent Liability:**

During the year ended June 30, 2022, the Organization received a loan of \$1,000,000 from Pierce County Department of Human Services (the Lender) for the construction of the senior residential care center. The Organization incurred costs of \$869,204 under this loan. The loan does not bear interest and will be forgiven at the end of the term of the loan in 2052. The loan requires that 30 percent of the occupants have incomes of less than 50 percent of the area median income. If this condition is met, the loan will be forgiven on the maturity date. Since the probability of repayment is remote, loan proceeds have been recorded as grant revenue during year ended June 30, 2022.

**9. Construction Loan Payable:**

As of December 10, 2021, the Organization entered into a \$7,800,000 construction loan with Columbia Bank to assist with the construction of the new senior residential care center.

The construction loan funds are disbursed on a monthly basis based on the percentage of construction completed. Upon completion of the project, the construction loan will be repaid with a direct loan with the United States Department of Agriculture (USDA). Interest on the construction loan is a variable rate at the Columbia Bank base rate plus 1 percent. As of June 30, 2022, the interest rate was 5.75 percent.

**10. Paycheck Protection Program:**

In April 2020, the Organization was granted a loan from Sound Credit Union in the aggregate amount of \$49,650, pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

On May 5, 2021, this loan was approved for forgiveness by the Small Business Administration. The loan forgiveness is recorded as a gain on forgiveness of Paycheck Protection Program loan in the statements of activities and changes in net assets.

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**10. Paycheck Protection Program (continued):**

In February 2021, the Organization was granted a second loan from Sound Credit Union in the amount of \$57,496, as a second draw loan pursuant to the PPP program.

On July 8, 2021, this loan was approved for forgiveness by the Small Business Administration. The loan forgiveness is recorded as a gain on forgiveness of Paycheck Protection Program loan in the statements of activities and changes in net assets.

**11. Net Assets with Donor Restrictions:**

Net assets with donor restrictions are restricted for the following purposes:

	(Audited) 2022	(Reviewed) 2021
<i>Specific purpose</i>		
Addressing isolation of seniors	\$ 1,902,529	\$ -
Providing financial assistance to residents	751,336	-
Construction of senior residential care center	777,718	194,517
<i>Passage of time</i>		
Promises to give	36,204	35,947
<b>Net assets with donor restrictions</b>	<b>\$ 3,467,787</b>	<b>\$ 230,464</b>

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**12. Expenses by Function and Natural Classification:**

The costs of providing various program services and other activities have been summarized on a functional basis as follows:

	<b>2022 (Audited)</b>			
	<b>Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries	\$ 132,448	\$ 78,067	\$ 89,290	\$ 299,805
Benefits	20,530	12,102	13,841	46,473
Repairs and maintenance	21,501	4,411	1,652	27,564
Supplies	430	5,426	-	5,856
Utilities	9,702	1,991	745	12,438
Professional fees	-	3,448	-	3,448
Depreciation	16,966	3,480	1,305	21,751
Interest	13,616	2,793	1,048	17,457
Insurance	351	1,020	-	1,371
Taxes	6,056	238	90	6,384
Other	82,730	6,616	9,550	98,896
<b>Total expenses</b>	<b>\$ 304,330</b>	<b>\$ 119,592</b>	<b>\$ 117,521</b>	<b>\$ 541,443</b>

	<b>2021 (Reviewed)</b>			
	<b>Program</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Salaries	\$ 128,394	\$ 63,994	\$ 89,304	\$ 281,692
Benefits	16,631	8,290	11,639	36,560
Repairs and maintenance	11,133	2,284	856	14,273
Supplies	78	2,981	-	3,059
Utilities	10,371	2,127	798	13,296
Professional fees	416	26,150	1,172	27,738
Depreciation	14,461	2,966	1,113	18,540
Interest	28,857	5,919	2,220	36,996
Insurance	351	6,761	-	7,112
Taxes	7,520	238	89	7,847
Other	71,544	42,491	10,969	125,004
<b>Total expenses</b>	<b>\$ 289,756</b>	<b>\$ 164,201</b>	<b>\$ 118,160</b>	<b>\$ 572,117</b>

**The Mustard Seed Project of Key Peninsula  
Notes to Financial Statements (Continued)  
Years Ended June 30, 2022 and 2021**

**13. Related-party Transactions:**

The Organization has received several pledges from board members. Contributions from board members supporting programs and operations totaled \$16,609 and \$27,426 for the years ended June 30, 2022 and 2021, respectively. Contributions from board members for capital projects totaled \$100,000 and \$48,000 for the years ended June 30, 2022 and 2021, respectively.

Pledges receivable from board members totaled \$3,900 and \$2,000 as of June 30, 2022 and 2021, respectively.

**14. Rental Income:**

The Organization leases space to other not-for-profit organizations. Lease arrangements vary by tenant and monthly rental income varies from \$400 to \$600 a month. The Organization also leases space on an hourly basis.

**15. Subsequent Event:**

The Organization's fair value of investments has had a material decline in fair value subsequent to the statements of financial position date.

**SINGLE AUDIT**

**AUDITORS' SECTION**



DINGUS | ZARECOR & ASSOCIATES PLLC  
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
The Mustard Seed Project of Key Peninsula  
Vaughn, Washington

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Mustard Seed Project of Key Peninsula (a not-for-profit organization) (the Organization), which comprise the statements of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 14, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control described in the accompanying schedule of audit findings and questioned costs that we consider to be a material weakness (2022-001).



## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **The Organization's Response to Finding**

The Organization's response to the finding identified in our audit is described in the accompanying schedule of audit findings and questioned costs. The Organization's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dingus, Zarecor and Associates PLLC*

Spokane Valley, Washington  
February 14, 2023



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors  
The Mustard Seed Project of Key Peninsula  
Vaughn, Washington

**Report on Compliance for Each Major Federal Program**

We have audited The Mustard Seed Project of Key Peninsula's (the Organization) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the Organization's major federal program for the year ended June 30, 2022. The Organization's major audit federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2022.

***Basis for Opinion on the Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal program.

### ***Auditors' Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### **Report on Internal Control over Compliance**

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Dingus, Zarecor and Associates PLLC*

Spokane Valley, Washington  
February 14, 2023

**The Mustard Seed Project of Key Peninsula  
 Schedule of Audit Findings and Questioned Costs  
 Years Ended June 30, 2022**

**Section I – Summary of Auditors’ Results**

**Financial Statements:**

Type of auditors’ report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified?   X   yes        no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?        yes   X   none reported

Noncompliance material to financial statements noted?        yes   X   no

**Federal Awards:**

Internal control over major programs:

- Material weakness(es) identified?        yes   X   no
- Significant deficiency(ies) identified?        yes   X   no

Type of auditors’ report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a)?        yes   X   no

**Identification of major programs:**

<i>Federal Assistance Listing Number(s)</i>	<i>Name of Federal Program or Cluster</i>
<u>10.766</u>	<u>Community Facilities Loans and Grants Cluster</u>

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?        yes   X   no

**The Mustard Seed Project of Key Peninsula  
Schedule of Audit Findings and Questioned Costs (Continued)  
Years Ended June 30, 2022**

**Section II – Financial Statement Findings**

**2022-001 Auditor Detected Adjusting Journal Entries**

**Criteria** [ ] Compliance Finding [ ] Significant Deficiency [X] Material Weakness

No significant or material adjusting journal entries should be detected by auditors during the audit process.

**Condition** There were significant adjusting journal entries proposed related to pledges receivable, property, furniture and equipment, construction in progress, accounts payable, and notes payable.

**Cause** Processes were not in place to identify and accrue transactions as of the year end.

**Context** The finding appears to be a *systemic* problem.

**Effect** Financial reports may be inaccurate and could affect management and Board decision making.

**Recommendation** We recommend the Organization put proper procedures in place during month and year end close, to properly identify and record accruals.

**View of responsible officials and planned corrective action** In response to the finding, we plan to execute the following:

- Set up month end processes to identify and properly accrue transactions.
- Maintain a monthly depreciation schedule.

Given the increased complexity with opening and operating Mustard Seed Village, we also intend to hire a financial controller to assist with accounting tasks

**Section III – Federal Award Findings and Questioned Costs**

There are no matters reported for 2022.

**AUDITEE'S SECTION**

**The Mustard Seed Project of Key Peninsula  
Schedule of Expenditures of Federal Awards  
Years Ended June 30, 2022**

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
<b>United States Department of Agriculture Direct Programs:</b>				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	10.766			\$ 1,640,151
<b>Total expenditures of federal awards</b>				<b>\$ 1,640,151</b>

*See accompanying independent auditors' report. The accompanying notes are an integral part of this schedule.*

**Notes to the Schedule of Expenditures of Federal Awards**

**1. Basis of Presentation:**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of The Mustard Seed Project of Key Peninsula (the Organization) under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

**2. Summary of Significant Accounting Policies:**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Organization and has elected not to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

**3. Loan Guarantee**

Included in the accompanying schedule of expenditures of federal awards are funds spent on the construction of a senior residential care center. The construction is being funded by interim financing from Columbia Bank. A United States Department of Agriculture Rural Development Direct Loan will repay the interim financing when construction is completed. The balance of interim financing at June 30, 2022, was \$1,640,151.





**The  
Mustard Seed Project**  
OF KEY PENINSULA

**Building an Elder-Friendly Community**  
PO Box 182 Vaughn, WA 98394 253-884-9814  
9016 154th Avenue Ct. NW, "Uptown" Key Center  
[www.themustardseedproject.org](http://www.themustardseedproject.org)

**The Mustard Seed Project of Key Peninsula  
Corrective Action Plan  
Years Ended June 30, 2022**

The current year Schedule of Audit Findings and Questioned Costs reported one matter in Section II – Financial Statement Findings:

**Current year audit findings:**

**2022-001 Auditor Detected Adjusting Journal Entries**

***Corrective action planned:*** We plan to implement both month and fiscal year end processes to identify and accrue transactions, per auditor's recommendations, and, with the guidance of our auditors, set up a monthly depreciation schedule. We plan to hire a qualified financial controller to assist with these tasks.

***Anticipated completion date:*** June 2023

***Contact person responsible for corrective action:*** Eric Blegen, Executive Director

**The Mustard Seed Project of Key Peninsula  
Summary Schedule of Prior Audit Findings  
Years Ended June 30, 2022**

This is the first audit the Organization has received. Therefore, there are no matters to report in this schedule for the year ended June 30, 2022.