The Mustard Seed Project of Key Peninsula

Financial Statements and Independent Auditors' Reports

June 30, 2023 and 2022

ACCOUNTANTS | ADVISORS

The Mustard Seed Project of Key Peninsula
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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 statements of financial position as of June 30, 2023 and 2022, and the related statements of activities and changes in net assets and cash flows for the 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 the Organization as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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.

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 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 March 19, 2024, 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 for the year ended June 30, 2023. We issued a similar report for the year ended June 30, 2022, dated February 14, 2023, which has not been included with the 2023 financial compliance report. The purpose of those reports 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. Those reports are 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.

DZA PLLC

Spokane Valley, Washington
March 19, 2024

The Mustard Seed Project of Key Peninsula
Statements of Financial Position
June 30, 2023 and 2022

ASSETS	**2023**	**2022**
Current assets		
Cash and cash equivalents	**$ 80,804**	$ 92,186
Resident receivables	**31,474**	-
Pledges receivable	**8,129**	36,204
Prepaid expenses	**42,474**	-
Total current assets	**162,881**	128,390
Noncurrent assets		
Cash and cash equivalents limited as to use	**33,090**	90,088
Cash and cash equivalents restricted for capital projects	**406,351**	777,718
Investments held by Greater Tacoma Community Foundation	**2,097,997**	2,653,865
Property, furniture, and equipment, net	**13,217,807**	8,458,658
Total noncurrent assets	**15,755,245**	11,980,329
Total assets	**$ 15,918,126**	$ 12,108,719

See accompanying notes to financial statements.

The Mustard Seed Project of Key Peninsula
Statements of Financial Position (Continued)
June 30, 2023 and 2022

LIABILITIES AND NET ASSETS		**2023**		**2022**
Current liabilities				
Accounts payable	**$**	**103,011**	$	55,914
Capital accounts payable		**-**		1,615,369
Accrued compensation and related liabilities		**33,176**		35,673
Accrued interest		**58,665**		-
Deferred revenue		**48,374**		-
Current maturities of long-term debt		**169,262**		8,058
Total current liabilities		**412,488**		1,715,014
Noncurrent liabilities				
Long-term debt, less current maturities		**8,233,555**		560,134
Construction loan payable		**-**		1,640,151
Total noncurrent liabilities		**8,233,555**		2,200,285
Total liabilities		**8,646,043**		3,915,299
Net assets				
Without donor restrictions		**4,759,606**		4,725,633
With donor restrictions		**2,512,477**		3,467,787
Total net assets		**7,272,083**		8,193,420
Total liabilities and net assets	**$**	**15,918,126**	$	12,108,719

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, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Resident care service revenue	$ 88,490	$ -	**$ 88,490**
Contributions	183,585	-	**183,585**
Grants	59,893	-	**59,893**
Special event income, less direct expenses of $27,102	99,616	-	**99,616**
Transportation services	76,933	-	**76,933**
Rental income	26,213	-	**26,213**
Investment return, net	2,359	113,277	**115,636**
Total revenue and support	537,089	113,277	**650,366**
Net assets released from restriction	1,068,587	(1,068,587)	**-**
Expenses			
Program services	1,326,994	-	**1,326,994**
Management and general	125,090	-	**125,090**
Fundraising	119,619	-	**119,619**
Total expenses	1,571,703	-	**1,571,703**
Change in net assets	33,973	(955,310)	**(921,337)**
Net assets, beginning of year	4,725,633	3,467,787	**8,193,420**
Net assets, end of year	**$ 4,759,606**	**$ 2,512,477**	**$ 7,272,083**

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

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

See accompanying notes to financial statements.

The Mustard Seed Project of Key Peninsula
Statements of Cash Flows
Years Ended June 30, 2023 and 2022

		2023		2022
Increase (Decrease) in Cash and Cash Equivalents				
Cash flows from operating activities				
Cash received from contributions	$	211,660	$	3,558,888
Cash received from grants		59,893		2,983,540
Cash received from residents		105,390		-
Cash received from investment income		115,636		4,602
Cash provided by special events		99,616		96,977
Cash received from other sources		103,146		41,615
Cash paid for employee salaries and benefits		(444,774)		(334,158)
Cash paid for interest		(226,590)		(17,457)
Cash paid for other expenses		(753,990)		(196,399)
Net cash from operating activities		(730,013)		6,137,608
Cash flows from investing activities				
Sales or maturity of investments		675,868		(3,865)
Purchases of investments		(120,000)		(2,650,000)
Purchase of property, furniture, and equipment		(6,458,474)		(4,739,719)
Net cash from investing activities		(5,902,606)		(7,393,584)
Cash flows from financing activities				
Proceeds from issuance of long-term debt		6,209,849		150,000
Proceeds from construction loan		-		1,640,151
Principal payments on long-term debt		(7,823)		(6,284)
Debt issuance costs		(9,154)		-
Net cash from financing activities		6,192,872		1,783,867
Net increase (decrease) in cash and cash equivalents		(439,747)		527,891
Cash and cash equivalents, beginning of year		959,992		432,101
Cash and cash equivalents, end of year	$	520,245	$	959,992
Reconciliation of Cash and Cash Equivalents to the Statements of Financial Position				
Cash and cash equivalents	$	80,804	$	92,186
Cash and cash equivalents limited as to use		33,090		90,088
Cash and cash equivalents restricted for capital projects		406,351		777,718
Total cash and cash equivalents	$	520,245	$	959,992

See accompanying notes to financial statements.

The Mustard Seed Project of Key Peninsula
Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022

	2023	2022
Reconciliation of Change in Net Assets to Net Cash From Operating Activities		
Change in net assets	**$ (921,337)**	$ 6,201,932
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation	**83,956**	21,751
Amortization of debt issuance costs	**1,602**	359
Gain on forgiveness of Paycheck Protection Program loan	**-**	(57,496)
(Increase) decrease in assets:		
Pledges receivable	**28,075**	(257)
Resident receivables	**(31,474)**	-
Prepaid expenses	**(42,474)**	-
Increase (decrease) in liabilities:		
Accounts payable	**47,097**	(40,801)
Accrued compensation and related liabilities	**(2,497)**	12,120
Accrued interest	**58,665**	-
Deferred revenue	**48,374**	-
Net cash from operating activities	**$ (730,013)**	$ 6,137,608

See accompanying notes to financial statements.

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.

The Organization opened a new assisted living and memory care center in May 2023 to provide services to residents.

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 40 years
• Furniture and equipment	5 to 20 years

Assets limited as to use – Assets limited as to use consist of cash and cash equivalents to operate a transportation program and set aside by the Organization’s Board of Directors (Board) for which the Board retains control and may use for a designated purpose.

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.

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 and changes in net assets.

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

Contributed goods and services – Contributed services are recognized only if the services require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Many individuals volunteer their time and perform a variety of tasks that assist the Organization with various programs. The services do not meet the criteria for recognition as a contribution and are not reflected in the financial statements. The fair value of contributed professional services is reported as donation revenue and expense in the period in which the services are performed.

The Organization generally pays for services requiring specific expertise. However, the Board volunteers their time and performs a variety of tasks that assist the Organization with operations and administration.

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 and changes in net assets. 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, 2023 and 2022, the Organization had no uncertain tax positions requiring accrual.

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

b. Summary of Significant Accounting Policies (continued)

Reclassifications – Certain amounts have been reclassified in the 2022 financial statements in order to be consistent with the 2023 financial statements. These reclassifications had no effect on previously reported change in net assets.

Subsequent events **–** Subsequent events have been reviewed through March 19, 2024, the date on which the financial statements were available to be issued.

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:

		2023		**2022**
Cash and cash equivalents	**$**	**80,804**	$	92,186
Receivables:				
Resident accounts		**31,474**		-
Financial assets available to meet cash needs for general expenditures within one year	**$**	**112,278**	$	92,186

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.

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.

3. Fair Value Measurements (continued):

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 GTCF are deemed to be Level 3 investments as the valuations are based on allocations and methods prepared by GTCF.

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. Distributions may be made from the funds in accordance with the terms of the funds.

Investment activity consisted of the following amounts:

Agency Fund	**2023**	**2022**
Investments at beginning of year	$ **1,902,529**	$ -
Additional amounts invested	**120,000**	1,900,000
Amounts distributed	**(789,331)**	-
Interest and dividends	**48,228**	651
Realized gains (losses)	**(4,265)**	17
Unrealized gains	**39,020**	1,959
Less management fees	**(9,034)**	(98)
	1,307,147	1,902,529
Benevolence Fund		
Investments at beginning of year	**751,336**	-
Additional amounts invested	**-**	750,000
Interest and dividends	**28,862**	110
Realized losses	**(8,803)**	(2)
Unrealized gains	**23,737**	1,269
Less management fees	**(4,282)**	(41)
	790,850	751,336
Investments held by Greater Tacoma Community Foundation	$ **2,097,997**	$ 2,653,865

5. Property, Furniture, and Equipment:

Property, furniture, and equipment consisted of the following:

	2023	2022
Building	**$ 12,058,308**	$ 487,988
Furniture and equipment	**678,170**	39,750
	12,736,478	527,738
Less accumulated depreciation	**(171,671)**	(87,715)
	12,564,807	440,023
Land	**653,000**	653,000
Construction in progress	**-**	7,365,635
Property, furniture, and equipment, net	**$ 13,217,807**	$ 8,458,658

6. Line of Credit:

The Organization has an unsecured $20,000 line-of-credit arrangement with a bank that matures on December 1, 2025. The Organization uses the line of credit for short-term working capital periodically throughout the year. There was no outstanding balance as of either June 30, 2023 or 2022. The interest rate in effect at June 30, 2023, was 12 percent.

7. Long-term Debt:

Long-term debt consisted of the following:

		2023		2022
Note payable to the United States Department of Agriculture, Rural Development: The note is payable in two annual installments of $175,500 per year followed by monthly payments of $26,910, including interest at 2.25 percent through January 2060.	$	**7,800,000**	$	-
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.		**200,000**		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.		**425,646**		433,716
Total		**8,425,646**		583,716
Debt issuance costs		**(22,829)**		(15,524)
Total		**8,402,817**		568,192
Less current maturities		**169,262**		8,058
Long-term debt	$	**8,233,555**	$	560,134

Future principal maturities of long-term debt are as follows:

Years Ending June 30,		Amount
2024	$	169,262
2025		221,605
2026		166,531
2027		170,480
2028		174,525
Thereafter		7,523,243
	$	**8,425,646**

8. Contingent Liability:

During the year ended June 30, 2022, the Organization received a loan of $869,204 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 on February 1, 2023, the construction loan was repaid and replaced with a direct loan issued from the United States Department of Agriculture.

10. Paycheck Protection Program:

In February 2021, the Organization was granted a loan from Sound Credit Union in the amount of $57,496, as a second draw loan pursuant to the Paycheck Protection Program (PPP) under Division A, Title I of the CARES Act, which was enacted March 27, 2020.

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:

	2023	2022
Specific purpose		
Addressing isolation of seniors	**$ 1,307,147**	$ 1,902,529
Providing financial assistance to residents	**790,850**	751,336
Construction of senior residential care center	**406,351**	777,718
Passage of time		
Promises to give	**8,129**	36,204
Net assets with donor restrictions	**$ 2,512,477**	$ 3,467,787

12. Resident Care Service Revenue:

Resident care service revenue is reported at the amount that reflects the consideration to which the Organization expects to be entitled in exchange for providing resident care. These amounts are due from residents, third-party payors (including health insurers and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Generally, the Organization bills the residents and third-party payors several days after the services are performed or the resident is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Organization. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to residents receiving care services. The Organization measures the performance obligation from admission into its care, or the commencement of a service, to the point when it is no longer required to provide services to that resident, which is generally at the time of discharge or completion of services. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to residents and customers in a retail setting (for example, pharmaceuticals) and the Organization does not believe it is required to provide additional goods or services related to that sale.

The Organization determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured residents in accordance with the Organization's policy, and implicit price concessions provided to uninsured residents. The Organization determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The Organization determines its estimate of implicit price concessions based on its historical collection experience with this class of residents.

Agreements with third-party payors typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payors follows:

Medicaid **–** Services provided to Medicaid beneficiaries are reimbursed on a prospective payment methodology. The nursing homes are subject to audits and desk reviews under the Medicaid program, which could result in adjustments to revenue. The adjustments are recorded at the time that such amounts can first be reasonably determined, typically upon notification from the contracting agency. The primary geographic source of residents includes Pierce County and surrounding communities in the southern Puget Sound region.

- ***Other*** **–** Payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

12. Resident Care Service Revenue (continued):

Laws and regulations concerning government programs, including Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare organizations have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in organizations entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the Organization's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the Organization. In addition, the contracts the Organization has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing resident care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the Organization's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. Adjustments arising from a change in the transaction price were not significant in 2023 or 2022.

Generally, residents who are covered by third-party payors are responsible for related deductibles which vary in amount.

The Organization also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The Organization estimates the transaction price for residents with deductibles from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to resident care service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the resident's ability to pay are recorded as bad debt expense.

The Organization has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected by the following factors: payors and timing of when revenue is recognized.

12. Resident Care Service Revenue (continued):

The composition of resident care service revenue by primary payor is as follows:

		2023
Medicaid	$	**11,548**
Other third-party payors		**10,934**
Residents		**66,008**
	$	**88,490**

All resident care service revenue is recognized as healthcare services are performed over time.

13. 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:

	2023							
		Program Services		Management and General		Fundraising		Total Expenses
Salaries	$	250,192	$	47,267	$	78,391	**$**	**375,850**
Benefits		44,219		8,353		13,855		**66,427**
Repairs and maintenance		15,340		3,147		1,180		**19,667**
Supplies		1,910		7,301		-		**9,211**
Utilities		14,680		3,012		1,131		**18,823**
Professional fees		393,125		29,221		-		**422,346**
Depreciation		65,486		13,433		5,037		**83,956**
Interest		281,818		2,500		937		**285,255**
Insurance		19,446		7,633		-		**27,079**
Taxes		10,278		238		90		**10,606**
Other		230,500		2,985		18,998		**252,483**
Total expenses	**$**	**1,326,994**	**$**	**125,090**	**$**	**119,619**	**$**	**1,571,703**

13. Expenses by Function and Natural Classification (continued):

	2022			
	Program Services	**Management and General**	**Fundraising**	**Total Expenses**
Salaries	$ 132,448	$ 78,067	$ 89,290	**$ 299,805**
Benefits	20,530	12,102	13,841	**46,473**
Repairs and maintenance	21,501	2,339	1,652	**25,492**
Supplies	430	5,426	-	**5,856**
Utilities	9,702	4,063	745	**14,510**
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**
Total expenses	**$ 304,330**	**$ 119,592**	**$ 117,521**	**$ 541,443**

14. Related-party Transactions:

The Organization has received several pledges from board members. Contributions from board members supporting programs and operations totaled $19,071 and $16,609 for the years ended June 30, 2023 and 2022, respectively. Contributions from board members for capital projects totaled $-0- and $100,000 for the years ended June 30, 2023 and 2022, respectively.

Pledges receivable from board members totaled $-0- and $3,900 as of June 30, 2023 and 2022, respectively.

15. 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.

16. Risk Concentrations:

Resident accounts receivable – The Organization provides skilled nursing and assisted living services at a primary location in Lakebay, Washington. Resident accounts receivable from the government agencies administering the Medicaid program and other third-party payors represent the only concentrated group of credit risk for the Organization and management does not believe that there are significant credit risks associated with these organizations. Private pay resident receivables consist of individuals involved in diverse activities, subject to differing economic conditions, and do not represent any concentrated credit risks to the Organization.

Significant concentration of resident accounts receivable was as follows:

Medicaid	**37 %**
Other third-party payors	**35**
Residents	**28**
	100 %

SINGLE AUDIT

AUDITORS' SECTION

ACCOUNTANTS | ADVISORS

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 statement of financial position as of June 30, 2023, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 19, 2024.

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 (2023-001).

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 the 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.

DZA PLLC

Spokane Valley, Washington
March 19, 2024

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 the Organization's Major Federal Program

Opinion on the Organization's 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, 2023. The Organization's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit 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, 2023.

Basis for Opinion on the Organization's 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.

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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.

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.

DZA PLLC

Spokane Valley, Washington
March 19, 2024

The Mustard Seed Project of Key Peninsula
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2023

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:

Federal Assistance Listing Number(s)	*Name of Federal Program or Cluster*
10.766	Community Facilities Loans and Grants Cluster

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

Auditee qualified as low-risk auditee?		yes	X	no

Section II – Financial Statement Findings

2023-001 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 cash, investments, property, accounts payable, notes payable, accrued interest, and deferred revenue.
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	With the help of new accounting staff, we continue to implement processes and procedures per the auditors' guidance and recommendations for our growing organization. We are getting into new routines for the accounting of accruals, investments, fixed and restricted assets, monthly.

Section III – Federal Award Findings and Questioned Costs

There are no matters reported for 2023.

AUDITEE'S SECTION

The Mustard Seed Project of Key Peninsula
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Total Federal Expenditures
United States Department of Agriculture Direct Programs:				
Community Facilities Loans and Grants Cluster				
Community Facilities Loans and Grants	10.766			$ 7,800,000
Total expenditures of federal awards				**$ 7,800,000**

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, 2023. 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 are funds spent on the construction of a senior residential care center. The United States Department of Agriculture Rural Development (USDA) funded this project by providing a $7,800,000 promissory note. The related loan balance of the direct loan as of June 30, 2022, was $1,640,151.

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

The Mustard Seed Project of Key Peninsula
Corrective Action Plan
Year Ended June 30, 2023

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

Current year audit findings:

2023-001 Auditor Detected Adjusting Journal Entries

Corrective action planned:	With the help of new accounting staff, we continue to implement processes and procedures per the auditors' guidance and recommendations for our growing organization. We are getting into new routines for the accounting of accruals, investments, fixed and restricted assets, monthly.
Anticipated completion date:	6/30/2023
Contact person responsible for corrective action:	Eric Blegen, Executive Director

The Mustard Seed Project of Key Peninsula
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2023

2022-001 Auditor Detected Journal Entries – Repeated as 2023-001