

MUST MINISTRIES, INC.

FINANCIAL REPORT

JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
MUST Ministries, Inc.
Marietta, Georgia

We have audited the accompanying statements of financial position of **MUST Ministries, Inc.** (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of MUST Ministries, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MUST Ministries, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MUST Ministries, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2012, on our consideration of MUST Ministries, Inc.'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 4, 2012

MUST MINISTRIES, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 509,474	\$ 986,912
Grants and contracts receivable	173,893	236,520
Pledges receivable, net	394,773	624,014
Inventories	274,389	-
Prepaid expenses	52,059	36,291
Other assets	-	25,000
Total current assets	<u>1,404,588</u>	<u>1,908,737</u>
NONCURRENT ASSETS		
Pledges receivable, net	145,046	841,368
Property and equipment, net	7,591,765	6,523,566
Investments held at the Community Foundation	100,000	100,000
Security deposits	19,020	17,500
Total noncurrent assets	<u>7,855,831</u>	<u>7,482,434</u>
Total Assets	<u><u>\$ 9,260,419</u></u>	<u><u>\$ 9,391,171</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 30,749	\$ 25,859
Accrued liabilities	151,526	130,217
Line of credit	220,000	-
Total current liabilities	<u>402,275</u>	<u>156,076</u>
LONG-TERM LIABILITIES		
Long-term debt	<u>1,645,000</u>	<u>2,145,000</u>
Total Liabilities	<u>2,047,275</u>	<u>2,301,076</u>
NET ASSETS		
Unrestricted	6,692,824	6,574,563
Temporarily restricted	520,320	515,532
Total net assets	<u>7,213,144</u>	<u>7,090,095</u>
Total Liabilities and Net Assets	<u><u>\$ 9,260,419</u></u>	<u><u>\$ 9,391,171</u></u>

See Notes to Financial Statements.

MUST MINISTRIES, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Totals
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 1,610,257	\$ 550,021	\$ 2,160,278
Grants	959,870	197,972	1,157,842
Capital campaign	-	958,268	958,268
Program fees	104,485	-	104,485
In-kind contributions	3,042,467	-	3,042,467
Special events, net	504,418	11,460	515,878
Other	156,160	-	156,160
Net assets released from restrictions			
Satisfaction of program and time restrictions	1,712,933	(1,712,933)	-
Total revenues, gains, and other support	8,090,590	4,788	8,095,378
EXPENSES AND LOSSES			
Program services	6,123,172	-	6,123,172
Supporting services			
Management and general	963,176	-	963,176
Fundraising	885,981	-	885,981
Total expenses and losses	1,849,157	-	1,849,157
Total program and supporting services	7,972,329	-	7,972,329
Change in net assets	118,261	4,788	123,049
Net Assets, beginning of year	6,574,563	515,532	7,090,095
Net Assets, end of year	<u>\$ 6,692,824</u>	<u>\$ 520,320</u>	<u>\$ 7,213,144</u>

See Notes to Financial Statements.

MUST MINISTRIES, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Totals
REVENUES, GAINS, AND OTHER SUPPORT			
Contributions	\$ 1,490,162	\$ 726,683	\$ 2,216,845
Grants	345,041	1,707,119	2,052,160
Capital campaign	-	287,154	287,154
Program fees	74,369	-	74,369
In-kind contributions	2,816,195	25,000	2,841,195
Special events, net	426,982	-	426,982
Other	350	4,716	5,066
Net assets released from restrictions			-
Satisfaction of program and time restrictions	2,421,889	(2,421,889)	-
Total revenues, gains, and other support	<u>7,574,988</u>	<u>328,783</u>	<u>7,903,771</u>
EXPENSES AND LOSSES			
Program services	<u>6,332,503</u>	<u>-</u>	<u>6,332,503</u>
Supporting services			
Management and general	916,635	-	916,635
Fundraising	734,210	-	734,210
Total expenses and losses	<u>1,650,845</u>	<u>-</u>	<u>1,650,845</u>
Total program and supporting services	<u>7,983,348</u>	<u>-</u>	<u>7,983,348</u>
Change in net assets	(408,360)	328,783	(79,577)
Net Assets, beginning of year	<u>6,982,923</u>	<u>186,749</u>	<u>7,169,672</u>
Net Assets, end of year	<u>\$ 6,574,563</u>	<u>\$ 515,532</u>	<u>\$ 7,090,095</u>

See Notes to Financial Statements.

MUST MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2012

		Supporting Services		
	Program Services	Management and General	Fund- Raising	Totals
Salaries and related expenses	\$ 1,962,150	\$ 566,446	\$ 490,368	\$ 3,018,964
Professional fees	24,236	101,747	73,009	198,992
Insurance	30,338	16,265	795	47,398
Memberships, subscriptions, and registrations	8,566	17,819	7,360	33,745
Advertising	5,650	541	8,064	14,255
Supplies	80,551	14,943	12,888	108,382
Apparel	2,334	-	52,492	54,826
Food for direct services	13,794	-	-	13,794
Postage and shipping	991	1,508	55,555	58,054
Occupancy expenses and assistance	780,469	21,667	4,763	806,899
Repair and maintenance	73,357	14,712	2,383	90,452
Licenses and taxes	-	-	3,779	3,779
Venue and equipment rental	630	1,000	31,509	33,139
Non-capitalized furniture, fixtures, and equipment	27,831	28,345	13,924	70,100
Printing and copying	11,222	1,943	77,713	90,878
Travel and transportation	20,989	11,985	4,829	37,803
Meals and entertainment	8,698	15,584	21,259	45,541
Interest expense	-	71,949	-	71,949
Bank and credit card fees	34	25,667	2,475	28,176
Other including bad debt expense	270,367	2,649	7,826	280,842
Donated materials and services	2,658,312	-	2,980	2,661,292
Total expenses before depreciation	5,980,519	914,770	873,971	7,769,260
Depreciation	142,653	48,406	12,010	203,069
Total expenses	\$ 6,123,172	\$ 963,176	\$ 885,981	\$ 7,972,329

See Notes to Financial Statements.

MUST MINISTRIES, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2011

	Program Services	Supporting Services		Totals
		Management and General	Fund- Raising	
Salaries and related expenses	\$ 1,604,202	\$ 579,676	\$ 413,096	\$ 2,596,974
Professional fees	23,437	50,634	53,251	127,322
Insurance	22,277	18,059	725	41,061
Memberships, subscriptions, and registrations	12,543	11,760	13,152	37,455
Advertising	-	-	7,970	7,970
Supplies	65,347	14,406	13,457	93,210
Apparel	368	160	31,535	32,063
Food for direct services	7,158	-	-	7,158
Postage and shipping	1,812	998	44,018	46,828
Occupancy expenses and assistance	1,478,937	24,857	4,776	1,508,570
Repair and maintenance	52,055	2,602	259	54,916
Licenses and taxes	102	520	100	722
Venue and equipment rental	1,650	-	15,968	17,618
Non-capitalized furniture, fixtures, and equipment	41,974	17,517	2,961	62,452
Printing and copying	10,253	2,834	89,159	102,246
Travel and transportation	29,340	11,635	4,502	45,477
Meals and entertainment	4,343	14,050	26,757	45,150
Interest expense	-	82,042	-	82,042
Bank and credit card fees	848	15,215	3,039	19,102
Loss on disposal of equipment	-	4,144	-	4,144
Other and miscellaneous expense	42,185	8,723	18	50,926
Donated materials and services	2,810,600	-	-	2,810,600
Total expenses before depreciation	<u>6,209,431</u>	<u>859,832</u>	<u>724,743</u>	<u>7,794,006</u>
Depreciation	<u>123,072</u>	<u>56,803</u>	<u>9,467</u>	<u>189,342</u>
Total expenses	<u>\$ 6,332,503</u>	<u>\$ 916,635</u>	<u>\$ 734,210</u>	<u>\$ 7,983,348</u>

See Notes to Financial Statements.

MUST MINISTRIES, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	\$ 123,049	\$ (79,577)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	203,069	189,342
Donated clothing and food inventory	(274,389)	-
Loss on fixed asset disposition	-	4,144
Donated property and equipment	-	(5,678)
Bad debt expense	(266,921)	-
(Increase) decrease in:		
Grants and contracts receivable	62,627	118,965
Pledges receivable	1,192,484	1,250,331
Prepaid expenses	(15,768)	(36,291)
Security deposits	(1,520)	(274)
Other assets	25,000	(25,000)
Increase (decrease) in:		
Accounts payable	4,890	(971)
Accrued liabilities	21,309	51,085
Net cash provided by operating activities	<u>1,073,830</u>	<u>1,466,076</u>
INVESTING ACTIVITIES		
Purchase of fixed assets	(1,271,268)	(32,347)
Net cash (used in) investing activities	<u>(1,271,268)</u>	<u>(32,347)</u>
FINANCING ACTIVITIES		
Net proceeds from lines of credit	220,000	-
Payments on long-term debt	(500,000)	(1,300,000)
Net cash (used in) financing activities	<u>(280,000)</u>	<u>(1,300,000)</u>
Increase (decrease) in cash and cash equivalents	(477,438)	133,729
Cash and cash equivalents, beginning of year	<u>986,912</u>	<u>853,183</u>
Cash and cash equivalents, end of year	<u>\$ 509,474</u>	<u>\$ 986,912</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	<u>\$ 71,949</u>	<u>\$ 82,042</u>

See Notes to Financial Statements.

MUST MINISTRIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION

MUST Ministries, Inc., (MUST) is a non-profit organization that was organized to provide for the needs of people in crisis, including the poor and the homeless; to assist them in maintaining and restoring their dignity with the intent of empowering them to return to an independent living status. MUST began operations in 1971 as a part of Urban Action, Inc. of Atlanta, Georgia. MUST was incorporated as a separate entity on January 20, 1993, pursuant to the Georgia Nonprofit Corporation Code. MUST has offices located in Marietta, Smyrna, and Canton, Georgia.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by MUST are set forth below.

Basis of Accounting

The financial statements of MUST have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

MUST Ministries, Inc. follows the requirements of the Financial Accounting Standards Board (FASB)'s *Financial Statements of Not-for-Profit Organizations*. Under this guidance, MUST Ministries, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, MUST considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Grants and Contracts Receivable

Grants and contracts receivable are stated at unpaid balances, less an allowance for doubtful accounts. MUST provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the ability of contractors to meet their obligations. Receivables are considered impaired if full principal payments are not received in accordance with the contractual terms. It is MUST's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected and no allowance for doubtful accounts is determined to be needed. There were no grant or contract allowance for doubtful accounts at June 30, 2012 and 2011.

Pledges Receivable

Pledges receivable, less an allowance for uncollectible amounts, are discounted to reflect the time value of money. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Investments

In accordance with FASB, investments in equity securities with readily determinable fair values and all investments in debt securities shall be measured at fair value in the statement of financial position. Realized and unrealized gains and losses are recognized as changes in net assets in the periods in which they occur, and investment income is recognized as revenue in the period earned. Gains and investment income that are limited to specific uses by donor-restrictions are reflected as increases in unrestricted net assets, if the restrictions are met in the same reporting period.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment is recorded at cost, or if donated, at the fair market value on the date the asset is donated. Depreciation is computed over the estimated useful lives of these assets (5 to 40 years) using the straight-line method. Repairs and maintenance are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment is sold or otherwise disposed of, the asset account and related accumulated depreciation are removed, and any gain or loss is included in operations.

MUST reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Inventory

Donated food and clothing items are recorded in inventory and recognized as in-kind support at the time of donation and expense upon distribution to MUST's clients. Beginning in the current fiscal year, donated food and clothing inventory is recorded at the estimated fair market value using an industry standard valuation. Prior to the current fiscal year, inventory was not material to the financial statements as a whole and therefore was not recorded.

Revenue Recognition

In accordance with FASB, unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. All contributions and investment income are available for unrestricted use unless specifically restricted by the donor. Amounts received and investment income earned that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met.

MUST records the value of donated property, goods or services when there is an objective basis available to measure their value. Donated property, materials and equipment are reflected as contributions in the accompanying statements at their estimated values at date of receipt. No amounts have been reflected in the statement of activity for volunteer services because the criteria for recognition of such volunteer effort under FASB guidance have not been satisfied. Nevertheless, volunteers have donated a substantial amount of their time to the program services of MUST.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets, as net assets released from restrictions.

Grants and Contracts Support

MUST is funded, in part, by contracts with various federal, state, and local government agencies and other nonprofit agencies. These contracts are generally cost reimbursement contracts for specific expenses and require MUST to perform specific services to eligible populations. Any of the funding sources may, at its discretion, request reimbursement for expenses or return of funds, or both, as a result of noncompliance by MUST with the terms of the contracts.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Presentation

As defined by FASB, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, MUST Ministries, Inc. uses various methods including market, income, and cost approaches. Based on these approaches, MUST Ministries, Inc. often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. MUST Ministries, Inc. utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, MUST Ministries, Inc. is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 - Valuations for assets and liabilities traded in active markets, such as the New York Stock Exchange. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities

For the fiscal years ended June 30, 2012 and 2011, the application of valuation techniques applied to similar assets and liabilities has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

MUST Ministries, Inc. qualifies as a charitable organization as defined by Internal Revenue Code Section 501(c)(3) and, accordingly, is generally exempt from federal income taxes under Internal Revenue Code Section 501(a). It is however, required to file Federal Form 990 – Return of Organization Exempt from Income Tax. This is an informational return only. Accordingly, no provision for income taxes is made in the financial statements. Management evaluated MUST's tax positions and concluded that they have taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions on accounting for uncertainty in income taxes. With few exceptions, MUST is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

NOTE 3. INVESTMENTS HELD AT THE COMMUNITY FOUNDATION

The following table sets forth by level, within the fair value hierarchy, MUST's assets at fair value as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Pooled Investment at Community Foundation	\$ 100,000	\$ -	\$ -	\$ 100,000
Total	\$ 100,000	\$ -	\$ -	\$ 100,000

MUST's assets at fair value as of June 30, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
Pooled Investment at Community Foundation	\$ 100,000	\$ -	\$ -	\$ 100,000
Total	\$ 100,000	\$ -	\$ -	\$ 100,000

The Cobb Community Foundation ("Community Foundation") holds a donor-established advised fund ("Fund") for the benefit of MUST. Under the terms of the agreement establishing the Fund, the principal is intended to be a permanent endowment and the earnings from the Fund are to be made available to MUST to support its general operations. The agreement granted variance power to the Community Foundation. Thus, the Fund is owned by the Community Foundation, and the Foundation has final authority and control over the disposition of the assets and earnings of the Fund. The total amount of the funds held at the Community Foundation at June 30, 2012 and 2011 was \$195,620 and \$285,773, respectively. This amount includes a matching contribution in the amount of \$100,000 made by MUST and is reflected in the statement of financial position of MUST at June 30, 2012 and 2011 as The Community Foundation does not have variance power over the \$100,000 of matching funds.

It is the intention of the Board and management of MUST, to leave the matching contribution as part of the permanent endowment, but MUST reserves the right to recover the funds in the future if MUST has the need for the funds. MUST, has not recognized its potential for future distributions from the assets held in the Fund. Those distributions, if they occur, will be recognized as contributions when received or unconditionally promised.

NOTE 4. PLEDGES RECEIVABLE

A capital fund-raising campaign began in 2007 to allow for the acquisition and build-out of facilities to support operations of MUST. All original pledges made toward the capital campaign are intended for use in such acquisitions. MUST continues to receive capital fund-raising campaign contributions, both cash and pledges, to improve and expand program services.

NOTES TO FINANCIAL STATEMENTS

NOTE 4. PLEDGES RECEIVABLE (Continued)

Pledges receivable consisted of the following at June 30, 2012:

	Operating	Capital Campaign	Total
Current	\$ 92,307	\$ 324,926	\$ 417,233
Due in one to five years	89,385	349,403	438,788
	181,692	674,329	856,021
Less allowance for uncollectible pledges	(17,242)	(277,687)	(294,929)
Less time value discount	(4,564)	(16,619)	(21,273)
Net pledges receivable	<u>\$ 159,796</u>	<u>\$ 380,023</u>	<u>\$ 539,819</u>

Pledges receivable consisted of the following at June 30, 2011:

	Operating	Capital Campaign	Total
Current	\$ 109,150	\$ 539,397	\$ 648,547
Due in one to five years	152,620	792,787	945,407
	261,770	1,332,184	1,593,954
Less allowance for uncollectible pledges	(16,792)	(18,923)	(35,715)
Less time value discount	(14,990)	(77,867)	(92,857)
Net pledges receivable	<u>\$ 229,988</u>	<u>\$ 1,235,394</u>	<u>\$ 1,465,382</u>

Pledge discount rate was 4% for the years ended June 30, 2012 and 2011.

During 2012, the Organization received a conditional pledge whereby if the Organization independently raises \$1,450,000 for the agreed upon purpose specified in the pledge agreement, the donor pledges to contribute an additional \$250,000. At June 30, 2012, the Organization has not recorded this conditional contribution since the conditions of the pledge had not yet been met.

NOTE 5. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of the following as of June 30:

	2012	2011
Vehicles	\$ 109,128	\$ 78,376
Equipment	299,499	227,487
Land	1,051,696	1,051,696
Buildings and improvements	6,165,309	6,106,290
Construction in progress	1,109,485	-
	8,735,117	7,463,849
Less accumulated depreciation	(1,143,352)	(940,283)
Net property and equipment	<u>\$ 7,591,765</u>	<u>\$ 6,523,566</u>

Depreciation expense for the year ended June 30, 2012 and 2011 amounted to \$203,069 and \$189,342, respectively.

NOTES TO FINANCIAL STATEMENTS

NOTE 6. VACATION AND SICK LEAVE PAYABLE

Employees earn vacation and sick leave depending on years of service. Accrued vacation is paid upon an employee's termination. Accrued sick leave is not paid upon employee termination and therefore has not been accrued at year-end. Liabilities for accumulated leave of \$103,560 and \$86,663 are included in the statement of financial position at June 30, 2012 and 2011, respectively.

NOTE 7. 403(b) THRIFT PLAN

MUST provides a 403(b) thrift plan which covers all eligible employees. Employees can make salary reduction contributions, and MUST makes matching contributions. For the years ended June 30, 2012 and 2011, MUST made matching contributions equal to 4% of current salaries for full time participating employees. The Organization suspended the match to the 403(b) plan during the year ended June 30, 2012. Contribution plan expense for the years ended June 30, 2012 and 2011 was \$27,995 and \$16,252, respectively.

NOTE 8. CONCENTRATIONS

MUST maintains several bank accounts at various banks which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. MUST has a significant concentration of cash deposited in one financial institution. This concentration comprised approximately 46% of the cash balance at June 30, 2012 and 59% at June 30, 2011. Cash balances were in excess of the FDIC insured level by \$235,893 and \$391,613 as of June 30, 2012 and 2011, respectively.

NOTE 9. COMMITMENTS

MUST had various operating leases in effect during the year ended June 30, 2012. The leases include rental of office space, warehouse space, and residential apartments. The apartments are for use by consumers. The leases are one to three year operating leases with various starting and ending dates. Minimum rentals, on an annual basis, are as follows:

Year ending June 30:

2013	\$	264,433
2014		21,590
Total	\$	<u>286,023</u>

NOTE 10. LONG-TERM DEBT

During 2008, MUST purchased a new building located at 1407 Cobb Parkway, which will provide space for day services and administrative offices to increase service delivery to clients. MUST obtained a commitment from Georgian Bank to provide construction financing. The loan agreement provided a maximum principal amount of \$6,800,000. The funds could be drawn down as necessary to purchase and build out the interior of the building. MUST has solicited funding from members through a capital fund-raising campaign to support the project. As pledges are collected, the proceeds are used to reduce the principal balance. The loan carries an interest rate of Prime plus .65%. Interest is paid monthly. The loan agreement was due to expire on January 5, 2010.

NOTES TO FINANCIAL STATEMENTS

NOTE 10. LONG-TERM DEBT (Continued)

MUST refinanced this loan with BB&T with an effective date of March 29, 2010. The loan agreement provides a maximum principal amount of \$3,570,000. The loan carries an interest rate of the one month LIBOR rate plus 2.25%. Interest is paid monthly. The loan agreement is set to expire on April 5, 2017. Covenants consist of a cash flow to debt service coverage of 1.1 and minimum liquidity of \$375,000 in liquid assets and average liquidity of \$500,000 in liquid assets.

Scheduled maturities on long-term debt are as follows:

For the year ended June 30,

2013	\$	-
2014		-
2015		288,349
2016		112,202
2017		1,244,449
Total	<u>\$</u>	<u>1,645,000</u>

NOTE 11. LINE OF CREDIT

During the year ended June 30, 2011, MUST renewed a line of credit of \$220,000 with a financial institution to provide financing to maintain day-to-day operating activity.

The line of credit bears interest at the financial institution's prime rate and matures in May of 2013. The line of credit balance was \$220,000 and \$ - at June 30, 2012 and 2011.

NOTE 12. IN-KIND CONTRIBUTIONS

In-kind contributions were received as follows for the year ended June 30:

	<u>2012</u>	<u>2011</u>
Food and meals	\$ 1,942,850	\$ 1,745,410
Clothing	521,498	489,404
Program supplies	469,694	575,703
Property, plant, and equipment	<u>108,425</u>	<u>30,678</u>
	<u>\$ 3,042,467</u>	<u>\$ 2,841,195</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	<u>2012</u>	<u>2011</u>
Capital fund-raising campaign	\$ 186,921	\$ 220,454
Property, plant, and equipment	123,286	151,000
Summer lunch program	194,178	144,078
Other	<u>15,935</u>	<u>-</u>
	<u>\$ 520,320</u>	<u>\$ 515,532</u>

Temporarily restricted net assets consist of the following at June 30:

	<u>2012</u>	<u>2011</u>
Cash	\$ 333,399	\$ 270,078
Pledges receivable	186,921	220,454
Other assets	<u>-</u>	<u>25,000</u>
	<u>\$ 520,320</u>	<u>\$ 515,532</u>

NOTE 14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2012 and 2011 by incurring expenditures satisfying the restricted purposes specified by donors. Purpose restrictions accomplished are as follows:

	<u>2012</u>	<u>2011</u>
Capital fund-raising campaign	\$ 836,393	\$ 198,287
Federal grants	155,408	1,572,999
Other	<u>721,132</u>	<u>650,603</u>
	<u>\$ 1,712,933</u>	<u>\$ 2,421,889</u>

NOTE 15. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 4, 2012, the date the financial statements were available to be issued.

SINGLE AUDIT SECTION

MUST MINISTRIES, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

<u>Programs</u>	<u>CFDA No.</u>	<u>Expenditures</u>
MAJOR PROGRAMS		
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT		
Georgia Department of Community Affairs:		
Shelter Plus Care	14.238	\$ 223,671
Supportive Housing Program	14.238	177,661
		<u>401,332</u>
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT		
Cobb County Board of Commissioners:		
Community Development Block Grant	14.218	500,000
Cherokee County Board of Commissioners:		
Community Development Block Grant	14.218	155,408
		<u>655,408</u>
TOTAL MAJOR PROGRAMS		<u>1,056,740</u>
NON MAJOR PROGRAMS		
U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT		
Cobb County Board of Commissioners:		
Emergency Shelter Grants Program	14.231	39,677
Georgia Department of Community Affairs:		
Emergency Shelter Grants Program	14.231	110,000
		<u>149,677</u>
Georgia Department of Community Affairs:		
Homelessness Prevention and Rapid Re-Housing (ARRA)	14.257	61,799
Cobb County Board of Commissioners:		
Homelessness Prevention and Rapid Re-Housing (ARRA)	14.257	34,869
		<u>96,668</u>
U.S. DEPT OF HOMELAND SECURITY		
Emergency Management Agency	97.024	57,126
Emergency Food and Shelter National Board Program		
U.S. DEPT. OF HEALTH & HUMAN SERVICES		
Cobb County Board of Commissioners:		
Community Services Block Grant	93.569	86,301
Georgia Department of Family and Children Services:		
Community Partnership Investment	93.558	109,767
		<u>196,068</u>
TOTAL NON MAJOR PROGRAMS		<u>499,539</u>
TOTAL FEDERAL AWARDS		<u>\$ 1,556,279</u>

The accompanying note is an integral part of this schedule.

MUST MINISTRIES, INC.
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2012

NOTE 1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of MUST Ministries, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.



**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***

**To the Board of Directors
MUST Ministries, Inc.**

We have audited the financial statements of MUST Ministries, Inc. (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 4, 2012. We conducted our audit in accordance with 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.

Internal Control over Financial Reporting

Management of MUST Ministries, Inc. is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered MUST Ministries, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MUST Ministries, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

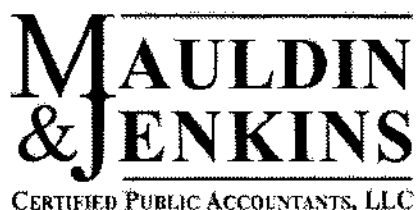
As part of obtaining reasonable assurance about whether MUST Ministries, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

We noted certain matters that we reported to management of MUST Ministries, Inc. in a separate letter dated December 4, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 4, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH *OMB CIRCULAR A-133***

**To the Board of Directors
MUST Ministries, Inc.**

Compliance

We have audited MUST Ministries, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of MUST Ministries, Inc.'s major federal programs for the year ended June 30, 2012. MUST Ministries, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of MUST Ministries, Inc.'s management. Our responsibility is to express an opinion on MUST Ministries, Inc.'s compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about MUST Ministries, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of MUST Ministries, Inc.'s compliance with those requirements.

In our opinion, MUST Ministries complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of MUST Ministries, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered MUST Ministries, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MUST Ministries, Inc.'s 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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 4, 2012

MUST MINISTRIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

SECTION I - SUMMARY OF AUDITOR'S RESULTS:

Financial Statements:

Type of auditors' report issued	<u>Unqualified</u>	
	<u>Yes</u>	<u>No</u>
Internal control over financial reporting:		
Material weaknesses identified?		<u>X</u>
Significant deficiencies identified not considered to be material weaknesses?		<u>None reported</u>
Noncompliance material to the financial statements noted?		<u>X</u>

Federal Awards:

Internal controls over major programs:

Material weaknesses identified?		<u>X</u>
Significant deficiencies identified not considered to be material weaknesses?		<u>None reported</u>

Type of auditors' report issued on compliance for major programs

Unqualified

Audit findings required to be reported in accordance with OMB Circular A-133, Section 510(a)

No

Identification of major programs:

Shelter Plus Care & Supportive Housing Program
Community Development Block Grant

14.238
14.218

Dollar threshold used to distinguish between type A and type B programs

\$ 300,000

Auditee qualified as low-risk auditee?

X

Financial statement findings?

X

Findings and questioned costs for Federal awards?

X

MUST MINISTRIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2012

Section II – Financial Statement Findings

None

Section III - Findings and Questioned Costs for Federal Awards

None

MUST MINISTRIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2011

Section II – Financial Statement Findings

2011-1

14.238 Allowable Activities/Allowable Costs

Criteria

Federal expenditures are required to be spent on allowable activities/allowable costs related to the grant program. Expenditures charged to the program were not allowable under the specific grant requirements.

Condition, Cause, and Effect

In a subsequent review of the grant, management became aware they had incorrectly requested reimbursement for an individual's payroll expenses.

Recommendation

We recommend only allowable activities/allowable costs in accordance with the grant agreement be charged to the program.

Management's Response

Management worked with HUD to reallocate expenditures from the grant program to two similar grants during the same period of activity. \$12,201.10 of related expenses were reallocated to appropriate grants, and \$1,120.00 was returned to HUD as unallowable expenses. Management has put procedures in place to monitor grant activity related to allowable activities and allowable costs.

Status: Corrected