# MUST MINISTRIES, INC.

## FINANCIAL REPORT

## JUNE 30, 2017

# MUST MINISTRIES, INC.
# FINANCIAL REPORT
# JUNE 30, 2017

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MAULDIN
& JENKINS

# INDEPENDENT AUDITOR'S REPORT

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of **MUST Ministries, Inc.** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MUST Ministries, Inc. as of June 30, 2017 and 2016, 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.

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***Other Matters***

*Other 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 information 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 December 14, 2017, 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* in considering MUST Ministries, Inc.'s internal control over financial reporting and compliance.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 14, 2017

# MUST MINISTRIES, INC.

## STATEMENTS OF FINANCIAL POSITION
## JUNE 30, 2017 AND 2016

| ASSETS | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ **2,184,215** | $ 1,574,221 |
| Cash for temporarily restricted net assets | **302,437** | 334,950 |
| Grants and contracts receivable | **383,112** | 272,465 |
| Pledges receivable | **364,198** | 121,833 |
| Other receivables | **-** | 4,740 |
| Inventories | **351,040** | 364,297 |
| Prepaid expenses | **96,971** | 53,992 |
| Total current assets | **3,681,973** | 2,726,498 |
| **NONCURRENT ASSETS** | | |
| Pledges receivable, net | **459,759** | 12,700 |
| Investments held at the Community Foundation | **142,025** | 116,634 |
| Security deposits | **20,946** | 20,946 |
| Total noncurrent assets | **622,730** | 150,280 |
| **PROPERTY AND EQUIPMENT, NET** | **7,921,925** | 8,114,285 |
| **Total assets** | $ **12,226,628** | $ 10,991,063 |
| **LIABILITIES AND NET ASSETS** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ **52,198** | $ 42,338 |
| Accrued liabilities | **208,159** | 209,803 |
| Short-term debt | **110,506** | 1,375,214 |
| Total current liabilities | **370,863** | 1,627,355 |
| **LONG-TERM LIABILITIES** | | |
| Deferred revenue | **16,281** | 52,012 |
| Long-term debt, net | **1,154,454** | - |
| Total long-term liabilities, net | **1,170,735** | 52,012 |
| **Total liabilities** | **1,541,598** | 1,679,367 |
| **NET ASSETS** | | |
| Unrestricted | **9,630,622** | 8,878,041 |
| Temporarily restricted | **1,054,408** | 433,655 |
| Total net assets | **10,685,030** | 9,311,696 |
| **Total liabilities and net assets** | $ **12,226,628** | $ 10,991,063 |

**See Notes to Financial Statements.**

# MUST MINISTRIES, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2017

| | Unrestricted | Temporarily Restricted | Totals |
|---|---|---|---|
| **REVENUES, GAINS, AND OTHER SUPPORT** | | | |
| Contributions | $ 2,566,424 | $ 602,250 | $ 3,168,674 |
| Capital campaign contributions | - | 876,150 | 876,150 |
| Grants | 1,616,751 | 213,040 | 1,829,791 |
| Program fees | 69,858 | - | 69,858 |
| In-kind contributions | 3,582,115 | - | 3,582,115 |
| Special events, net | 586,223 | - | 586,223 |
| Realized and unrealized gain on investments | 18,269 | - | 18,269 |
| Other income | 238,003 | - | 238,003 |
| Net assets released from restrictions | | | |
| Satisfaction of program and time restrictions | 1,070,687 | (1,070,687) | - |
| Total revenues, gains, and other support | 9,748,330 | 620,753 | 10,369,083 |
| **EXPENSES** | | | |
| Program services | 7,578,493 | - | 7,578,493 |
| Supporting services | | | |
| Management and general | 646,039 | - | 646,039 |
| Fundraising | 771,217 | - | 771,217 |
| Total expenses | 8,995,749 | - | 8,995,749 |
| Change in net assets | 752,581 | 620,753 | 1,373,334 |
| Net assets, beginning of year | 8,878,041 | 433,655 | 9,311,696 |
| Net assets, end of year | $ 9,630,622 | $ 1,054,408 | $ 10,685,030 |

**See Notes to Financial Statements.**

# MUST MINISTRIES, INC.

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE YEAR ENDED JUNE 30, 2016

| | Unrestricted | Temporarily Restricted | Totals |
|---|---|---|---|
| **REVENUES, GAINS, AND OTHER SUPPORT** | | | |
| Contributions | $ 2,538,330 | $ 602,153 | $ 3,140,483 |
| Grants | 1,618,861 | 291,151 | 1,910,012 |
| Program fees | 66,447 | - | 66,447 |
| In-kind contributions | 3,766,585 | - | 3,766,585 |
| Special events, net | 632,329 | - | 632,329 |
| Realized and unrealized loss on investments | (990) | - | (990) |
| Other income | 215,293 | - | 215,293 |
| Net assets released from restrictions | | | |
| Satisfaction of program and time restrictions | 947,586 | (947,586) | - |
| Total revenues, gains, and other support | 9,784,441 | (54,282) | 9,730,159 |
| **EXPENSES** | | | |
| Program services | 7,320,676 | - | 7,320,676 |
| Supporting services | | | |
| Management and general | 657,337 | - | 657,337 |
| Fundraising | 660,163 | - | 660,163 |
| Total expenses | 8,638,176 | - | 8,638,176 |
| Change in net assets | 1,146,265 | (54,282) | 1,091,983 |
| Net assets, beginning of year | 7,731,776 | 487,937 | 8,219,713 |
| Net assets, end of year | $ 8,878,041 | $ 433,655 | $ 9,311,696 |

**See Notes to Financial Statements.**

# MUST MINISTRIES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2017

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fund-Raising | Totals |
| Salaries and related expenses | $ 2,114,115 | $ 453,845 | $ 475,598 | $ 3,043,558 |
| Professional fees | 123,360 | 73,545 | 23,909 | 220,814 |
| Insurance | 61,863 | 3,207 | 4,606 | 69,676 |
| Memberships, subscriptions, and registrations | 13,415 | 13,709 | 6,036 | 33,160 |
| Advertising | 13,088 | 544 | 4,189 | 17,821 |
| Supplies | 164,830 | 5,414 | 5,144 | 175,388 |
| Food for direct services | 33,081 | - | - | 33,081 |
| Postage and shipping | 10,291 | 570 | 13,913 | 24,774 |
| Occupancy expenses | 309,888 | 8,855 | 5,964 | 324,707 |
| Supportive housing rent, utilities, and financial assistance | 676,203 | - | - | 676,203 |
| Repair and maintenance | 66,718 | 1,895 | 1,750 | 70,363 |
| Licenses and taxes | 850 | 116 | 101 | 1,067 |
| Venue and equipment rental | 412 | 43 | 38 | 493 |
| Non-capitalized furniture, fixtures, and equipment | 40,498 | 6,382 | 17,057 | 63,937 |
| Printing and copying | 48,161 | 3,093 | 65,288 | 116,542 |
| Travel and transportation | 32,749 | 6,581 | 1,160 | 40,490 |
| Meals and entertainment | 10,661 | 6,452 | 6,446 | 23,559 |
| Interest expense | 22,377 | 17,996 | 2,130 | 42,503 |
| Bank and credit card fees | 9,379 | 4,380 | 17,672 | 31,431 |
| Other expenses including bad debt expense | 5,311 | 3,649 | 103,910 | 112,870 |
| Loss on disposals of equipment | - | 6,732 | - | 6,732 |
| Donated materials and services | 3,558,470 | - | - | 3,558,470 |
| Total expenses before depreciation | 7,315,720 | 617,008 | 754,911 | 8,687,639 |
| Depreciation | 262,773 | 29,031 | 16,306 | 308,110 |
| Total expenses | $ 7,578,493 | $ 646,039 | $ 771,217 | $ 8,995,749 |

**See Notes to Financial Statements.**

# MUST MINISTRIES, INC.

## STATEMENT OF FUNCTIONAL EXPENSES
## FOR THE YEAR ENDED JUNE 30, 2016

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Management and General | Fund-Raising | Totals |
| Salaries and related expenses | $ 1,861,645 | $ 450,495 | $ 401,668 | $ 2,713,808 |
| Professional fees | 145,908 | 67,677 | 49,941 | 263,526 |
| Insurance | 56,550 | 5,397 | 3,684 | 65,631 |
| Memberships, subscriptions, and registrations | 3,881 | 17,439 | 4,650 | 25,970 |
| Advertising | 11,592 | 600 | 4,206 | 16,398 |
| Supplies | 144,111 | 1,464 | 4,283 | 149,858 |
| Food for direct services | 34,188 | - | - | 34,188 |
| Postage and shipping | 2,339 | 166 | 26,568 | 29,073 |
| Occupancy expenses | 284,719 | 18,998 | 10,399 | 314,116 |
| Supportive housing rent, utilities, and financial assistance | 644,719 | - | - | 644,719 |
| Repair and maintenance | 62,998 | 456 | 2,093 | 65,547 |
| Licenses and taxes | 857 | 136 | 74 | 1,067 |
| Venue and equipment rental | 627 | 69 | 38 | 734 |
| Non-capitalized furniture, fixtures, and equipment | 22,394 | 5,895 | 16,304 | 44,593 |
| Printing and copying | 37,644 | 2,809 | 64,792 | 105,245 |
| Travel and transportation | 29,894 | 4,418 | 4,135 | 38,447 |
| Meals and entertainment | 12,304 | 10,184 | 5,521 | 28,009 |
| Interest expense | 31,968 | 10,254 | 5,210 | 47,432 |
| Bank and credit card fees | 8,381 | 3,937 | 17,838 | 30,156 |
| Other expenses including bad debt expense | 54,473 | 3,527 | 4,904 | 62,904 |
| Loss on disposals of equipment | - | 19,501 | - | 19,501 |
| Donated materials and services | 3,628,706 | 120 | 12,700 | 3,641,526 |
| Total expenses before depreciation | 7,079,898 | 623,542 | 639,008 | 8,342,448 |
| Depreciation | 240,778 | 33,795 | 21,155 | 295,728 |
| Total expenses | $ 7,320,676 | $ 657,337 | $ 660,163 | $ 8,638,176 |

**See Notes to Financial Statements.**

# MUST MINISTRIES, INC.

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

| | 2017 | 2016 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Change in net assets | **$ 1,373,334** | $ 1,091,983 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | **308,110** | 295,728 |
| Realized and unrealized (gains) losses on investments | **(18,269)** | 990 |
| Loss on disposal of equipment | **6,732** | 19,501 |
| Bad debt expense | **103,083** | 54,425 |
| (Increase) decrease in: | | |
| Grants and contracts receivable | **(110,647)** | (40,500) |
| Pledges receivable | **(792,507)** | 122,488 |
| Other receivables | **4,740** | (4,740) |
| Inventories | **13,257** | (191,404) |
| Prepaid expenses | **(42,979)** | 12,000 |
| Security deposits | **-** | (908) |
| Increase (decrease) in: | | |
| Accounts payable | **9,860** | (25,510) |
| Accrued liabilities | **(1,644)** | 79,758 |
| Deferred revenue | **(35,731)** | 47,012 |
| Net cash provided by operating activities | **817,339** | 1,460,823 |
| **INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | **(122,482)** | (672,233) |
| Purchase of investments | **-** | (50,100) |
| Reinvested earnings | **(7,122)** | (3,574) |
| Net cash (used in) investing activities | **(129,604)** | (725,907) |
| **FINANCING ACTIVITIES** | | |
| Payments on long-term debt | **(110,254)** | (107,250) |
| Net cash (used in) financing activities | **(110,254)** | (107,250) |
| Increase in cash and cash equivalents | **577,481** | 627,666 |
| Cash and cash equivalents, beginning of year | **1,909,171** | 1,281,505 |
| Cash and cash equivalents, end of year | **$ 2,486,652** | $ 1,909,171 |
| **SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION** | | |
| Interest paid | **$ 42,363** | $ 47,432 |

**See Notes to Financial Statements.**

## NOTE 1. ORGANIZATION

Now over 45 years old, MUST Ministries, Inc. ("MUST" or "Organization") began operations in 1971 as part of Urban Action, Inc. of Atlanta, GA. MUST was incorporated as a separate entity on January 20, 1993, pursuant to the Georgia Nonprofit Corporation Code. The mission of MUST is Serving our Neighbors in Need . . . transforming lives and communities in response to Christ's call. The Organization provides comprehensive, yet tailored solutions for individuals and families in poverty, which help to remove barriers of housing, clothing, and food insecurities, as well as assist in finding employment. MUST assists clients by helping to restore and maintain dignity, with the intent of empowering those it serves with a return to living independently. MUST provides services in 8 counties and has offices located in Marietta, Smyrna, Canton and Kennesaw, 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 follows the requirements of the Financial Accounting Standards Board (FASB)'s *Financial Statements of Not-for-Profit Organizations*. Under this guidance, MUST 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. MUST had no permanently restricted net assets at June 30, 2017 and 2016.

### 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, 2017 and 2016.

### 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.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property and Equipment

Property and equipment are 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. Donated food and clothing inventory is recorded at the estimated fair market value using an industry standard valuation.

### 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.

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.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 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 their 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.

### 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 uses various methods including market, income, and cost approaches. Based on these approaches, MUST 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 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 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, 2017 and 2016, 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.

## NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. 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.

### New Accounting Pronouncements

During 2017, MUST adopted Accounting Standards Updated 2015-03, which is available to not-for-profit organizations to simplify the presentation of debt issuance costs. Under the newly adopted standard, MUST now presents debt issuance costs as a direct deduction from the applicable debt liability and amortization of the issuance cost as a component of interest expense. The effect of adopting the new standard changes the presentation on the statement of financial position and the details in Note 10 and is retrospectively applied for the year ended June 30, 2016.

## NOTE 3. INVESTMENTS HELD AT THE COMMUNITY FOUNDATION

The following table sets forth by level, within the fair value hierarchy, MUST's investments at fair value as of June 30, 2017:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Pooled Investment at Community Foundation** | **$ -** | **$ 142,025** | **$ -** | **$ 142,025** |
| **Total** | **$ -** | **$ 142,025** | **$ -** | **$ 142,025** |

MUST's investments at fair value as of June 30, 2016 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Pooled Investment at Community Foundation | $ - | $ 116,634 | $ - | $ 116,634 |
| Total | $ - | $ 116,634 | $ - | $ 116,634 |

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 Community 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, 2017 and 2016 was $242,025 and $216,634, respectively. This amount includes earnings and contributions in the amount of $142,025 and $116,634 made by MUST which are reflected in the statement of financial position of MUST at June 30, 2017 and 2016, respectively.

## NOTE 3. INVESTMENTS HELD AT THE COMMUNITY FOUNDATION (Continued)

It is the intention of the Board and management of MUST, to leave the contributions 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

MUST receives capital contributions, both cash and pledges, to allow for the acquisition and build-out of facilities to support the operations of MUST.

Pledges receivable consisted of the following at June 30, 2017:

| | Operating | Capital | Total |
|---|---|---|---|
| **Current** | **$ 73,700** | **$ 290,498** | **$ 364,198** |
| **Due in one to five years** | **19,207** | **538,109** | **557,316** |
| | **92,907** | **828,607** | **921,514** |
| **Less allowance for uncollectible pledges** | **(3,770)** | **(82,866)** | **(86,636)** |
| **Less time value discount** | **(1,101)** | **(9,820)** | **(10,921)** |
| **Pledges receivable, net** | **$ 88,036** | **$ 735,921** | **$ 823,957** |

Pledges receivable consisted of the following at June 30, 2016:

| | Operating | Capital | Total |
|---|---|---|---|
| Current | $ 111,094 | $ 10,739 | $ 121,833 |
| Due in one to five years | 16,000 | - | 16,000 |
| | 127,094 | 10,739 | 137,833 |
| Less allowance for uncollectible pledges | (1,955) | (1,034) | (2,989) |
| Less time value discount | (311) | - | (311) |
| Pledges receivable, net | $ 124,828 | $ 9,705 | $ 134,533 |

Pledge discount rate was 2% for the years ended June 30, 2017 and 2016.

## NOTE 5. PROPERTY AND EQUIPMENT

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

| | 2017 | 2016 |
|---|---|---|
| Vehicles | **$ 177,968** | $ 177,968 |
| Equipment | **557,802** | 578,730 |
| Land | **1,051,696** | 1,051,696 |
| Buildings and improvements | **8,415,912** | 8,415,912 |
| Construction in progress | **101,934** | 6,250 |
| | **10,305,312** | 10,230,556 |
| Less accumulated depreciation | **(2,383,387)** | (2,116,271) |
| Property and equipment, net | **$ 7,921,925** | $ 8,114,285 |

Depreciation expense for the years ended June 30, 2017 and 2016 was $308,110 and $295,728, respectively.

## 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 $135,138 and $119,278 are included in the statement of financial position with accrued liabilities at June 30, 2017 and 2016, 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 may make matching contributions. The Organization suspended the match to the 403(b) plan during the year ended June 30, 2013 and had no contribution plan expense for the years ended June 30, 2017 and 2016.

## NOTE 8. CONCENTRATIONS

MUST maintains deposit accounts at various banks which are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. MUST has substantially all cash deposited in one financial institution, a concentration that comprised approximately 76% and 75% of the cash balance June 30, 2017 and 2016, respectively. Cash balances were in excess of the FDIC insured level by $2,032,582 and $1,532,925 as of June 30, 2017 and 2016, respectively. Management does not believe it is exposed to significant credit risk on cash and cash equivalents.

## NOTE 9. COMMITMENTS

MUST had various operating leases in effect during the years ended June 30, 2017 and 2016. Rent expense for the years ended June 30, 2017 and 2016 was $358,697 and $350,147, respectively. The leases include rental of office space, warehouse space, and residential apartments. Future minimum lease payments over the remaining lease terms total $286,620 for the year ending June 30, 2018.

In August 2017, the Organization purchased real estate in Marietta, Georgia for approximately $1.4 million. The real estate will serve to expand and replace an existing operating facility. The purchase was seller-financed, and subsequent renovations will be financed by private capital contributions and the construction line of credit discussed in Note 11.

## NOTE 10. LONG-TERM DEBT

In 2008 MUST purchased a new building located at 1407 Cobb Parkway to 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 solicited funding from donors through a capital fund-raising campaign to support the project.

MUST refinanced this loan with BB&T with an effective date of April 12, 2017. The loan agreement provides a maximum principal amount of $1,292,238. The loan carried an interest rate of 3.375% and 3.25%, respectively, at June 30, 2017 and 2016. Principal and interest is paid monthly starting May 2017. The loan agreement is set to expire on April 5, 2027. The loan is collateralized by the facility at 1407 Cobb Parkway.

Scheduled maturities on long-term debt are as follows:

For the year ending June 30,

| | | |
|---|---|---|
| 2018 | $ | 110,506 |
| 2019 | | 114,294 |
| 2020 | | 118,212 |
| 2021 | | 122,264 |
| 2022 | | 126,454 |
| Thereafter | | 681,483 |
| | | 1,273,213 |
| Less debt issuance costs | | (8,253) |
| Total | $ | 1,264,960 |

## NOTE 11. LINES OF CREDIT

On April 12, 2017, 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 March 2020. The line of credit balance was $- as of June 30, 2017 and 2016. The line is collateralized by the facility at 460 Pat Mell Road and the Organization's receivables.

On April 12, 2017, MUST entered into a new line of credit of $750,000 to finance future construction costs. The line of credit bears interest at the financial institution’s prime rate and mature in March 2020. The line of credit balance was $- as of June 30, 2017. The line is collateralized by the facility at 1407 Cobb Parkway.

## NOTE 12. IN-KIND CONTRIBUTIONS

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

| | | **2017** | | 2016 |
|---|---|---|---|---|
| Food and meals | **$** | **2,327,726** | $ | 2,174,870 |
| Clothing | | **516,748** | | 868,752 |
| Program supplies and services | | **737,641** | | 722,963 |
| | **$** | **3,582,115** | $ | 3,766,585 |

## NOTE 13. TEMPORARILY RESTRICTED NET ASSETS

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

| | 2017 | 2016 |
|---|---|---|
| Capital | $ 884,398 | $ 117,152 |
| Summer lunch program | 92,644 | 144,391 |
| Time | 16,000 | 89,000 |
| Other programs | 61,366 | 83,112 |
| | $ 1,054,408 | $ 433,655 |

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

| | 2017 | 2016 |
|---|---|---|
| Cash | $ 302,437 | $ 334,950 |
| Pledges receivable | 751,971 | 98,705 |
| | $ 1,054,408 | $ 433,655 |

## NOTE 14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions during the years ended June 30, 2017 and 2016 by incurring expenditures satisfying the restricted purposes specified by donors as follows:

| | 2017 | 2016 |
|---|---|---|
| Capital | $ 108,904 | $ 20,685 |
| Property and equipment | - | 58,256 |
| Summer lunch program | 202,870 | 187,001 |
| Other programs | 758,913 | 681,644 |
| | $ 1,070,687 | $ 947,586 |

## NOTE 15. ACQUISITION OF ALIVE MINISTRIES, INC.

On September 30, 2015, the MUST Ministries, Inc. acquired Alive Ministries, Inc. Effective October 1, 2015, the assets acquired and contribution income were recognized by MUST at their fair values. The following table summarizes the assets acquired and contribution income recognized at the acquisition date.

At September 30, 2015:

| | | |
|---|---|---|
| Assets acquired | | |
| Cash | $ | 77,269 |
| Inventory | | 69,810 |
| Other assets | | 908 |
| Property and equipment | | 49,241 |
| | $ | 197,228 |
| Contribution income recognized | $ | 197,228 |

## NOTE 16. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 14, 2017, the date the financial statements were available to be issued.

As described in Note 9, subsequent to year-end the Organization purchased real estate in Marietta, Georgia.

# SINGLE AUDIT SECTION

# MUST MINISTRIES, INC.
# SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
# YEAR ENDED JUNE 30, 2017

| Programs | CFDA | Expenditures |
|---|---|---|
| **MAJOR PROGRAMS** | | |
| U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT | | |
| Supportive Housing Program | 14.267 | 338,256 |
| Georgia Department of Community Affairs (GA0170L4B061506): | | |
| Shelter Plus Care | 14.267 | 373,853 |
| **TOTAL MAJOR PROGRAMS** | | 712,109 |
| **NON MAJOR PROGRAMS** | | |
| U.S. DEPT. OF HOUSING & URBAN DEVELOPMENT | | |
| CDBG - Entitlement Grants Cluster | | |
| Cobb County Board of Commissioners (CD15-17-C15-17CJ-P): | | |
| Community Development Block Grant | 14.218 | $ 34,806 |
| Cherokee County Board of Commissioners (CD16-MUST, CD17-MUST): | | |
| Community Development Block Grant | 14.218 | 19,039 |
| | | 53,845 |
| Cobb County Board of Commissioners (ES16 – E16CJ): | | |
| Emergency Shelter Grants Program | 14.231 | 46,011 |
| Georgia Department of Community Affairs (15C115, 16C094-097): | | |
| Emergency Shelter Grants Program | 14.231 | 202,150 |
| | | 248,161 |
| Cobb County Board of Commissioners (H15-17CJ-R): | | |
| HOME Investment Partnership | 14.239 | 202,213 |
| U.S. DEPT. OF HEALTH & HUMAN SERVICES | | |
| TANF Cluster | | |
| Georgia Department of Family and Children Services (42700-040-0000021544): | | |
| Community Partnership Investment | 93.558 | 79,551 |
| Cobb County Board of Commissioners (CSBG-16-C16L, CSBG-17-C17L): | | |
| Community Services Block Grant | 93.569 | 76,499 |
| FEDERAL EMERGENCY MANAGEMENT AGENCY | | |
| Emergency Food and Shelter National Board Program | 97.024 | 84,344 |
| **TOTAL NON MAJOR PROGRAMS** | | 744,613 |
| **TOTAL FEDERAL AWARDS** | | $ 1,456,722 |

**The accompanying notes are an integral part of this schedule.**

## NOTE 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of MUST Ministries, Inc. under programs of the federal government for the year ended June 30, 2017. 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). Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

## NOTE 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. Organization has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

# INDEPENDENT AUDITOR'S 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, 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 MUST Ministries, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MUST Ministries, Inc.'s internal control over financial reporting (internal control) to determine the 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 MUST Ministries, Inc.'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MUST Ministries, Inc.'s financial statements are free from 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.*

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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 14, 2017

MAULDIN & JENKINS

# INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

## Report on Compliance for Each Major Federal Program

We have audited MUST Ministries, Inc.'s compliance with the types of compliance requirements described in the *OMB 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, 2017. 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.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of MUST Ministries, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. 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 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). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of MUST Ministries, Inc.'s compliance.

### Opinion on Each Major Federal Program

In our opinion, MUST Ministries, Inc. complied, in all material respects, with the types of 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, 2017.

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## Report on Internal Control Over Compliance

Management of MUST Ministries, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered MUST Ministries, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 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. 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 14, 2017

# MUST MINISTRIES, INC.
# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
# YEAR ENDED JUNE 30, 2017

**SECTION I - SUMMARY OF AUDITOR'S RESULTS:**
**Financial Statements:**

| | Yes | No |
|---|---|---|
| Type of auditors' report issued | **Unmodified** | |
| Internal control over financial reporting: | | |
| Material weaknesses identified? | | **X** |
| Significant deficiencies identified not considered to be material weaknesses? | | **None reported** |
| Noncompliance material to the financial statements noted? | | **X** |

**Federal Awards:**

| | Yes | No |
|---|---|---|
| Internal controls over major programs: | | |
| Material weaknesses identified? | | **X** |
| Significant deficiencies identified not considered to be material weaknesses? | | **None reported** |
| Type of auditors' report issued on compliance for major programs | **Unmodified** | |
| Audit findings required to be reported in accordance with 2 CFR Section 200.516(a) | **No** | |

**Identification of major programs:**

| | | |
|---|---|---|
| Shelter Plus Care & Supportive Housing Program | **14.267** | |
| Dollar threshold used to distinguish between type A and type B programs | **$ 750,000** | |

| | Yes | No |
|---|---|---|
| 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, 2017

**Section II – Financial Statement Findings**

None

**Section III - Findings and Questioned Costs for Federal Awards**

None

# MUST MINISTRIES, INC.
# SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
# YEAR ENDED JUNE 30, 2016

**Section II – Financial Statement Findings**

None

**Section III - Findings and Questioned Costs for Federal Awards**

None