

DESIRE STREET MINISTRIES

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

DESIRE STREET MINISTRIES

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Desire Street Ministries:

Report on the Financial Statements

We have audited the accompanying financial statements of Desire Street Ministries (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, 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. 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 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 Desire Street Ministries as of June 30, 2018 and 2017, 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.

Brooks, McGinnis & Company, LLC

Atlanta, Georgia
December 11, 2018

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DESIRE STREET MINISTRIES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and cash equivalents	\$ 1,872,977	\$ 1,507,044
Certificates of deposit	1,002,802	-
Government grant reimbursements receivable	71,451	595,752
Contributions and pledges receivable, net	485,095	645,743
Note receivable, net	-	642,359
Other receivables	114,941	75,995
Prepaid expenses and other assets	61,868	126,338
Real property held for sale	652,283	7,000
Cash restricted for long-term purposes	-	430,000
Property and equipment, net	3,635,785	3,799,019
Total assets	\$ 7,897,202	\$ 7,829,250
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 130,975	\$ 69,060
Accrued liabilities	33,406	127,070
Deferred revenue	130,056	32,969
Debt	500,000	500,000
Total liabilities	794,437	729,099
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Available for operations	5,647,405	5,362,478
Board designated	917,378	1,103,771
Total net assets without donor restrictions	6,564,783	6,466,249
With donor restrictions	537,982	633,902
Total net assets	7,102,765	7,100,151
Total liabilities and net assets	\$ 7,897,202	\$ 7,829,250

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

DESIRE STREET MINISTRIES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Changes in net assets without donor restrictions:		
Revenues and gains:		
Contributions	\$ 963,522	\$ 1,025,722
Grant and contract revenue	19,844	426,653
Special event revenue, net of \$167,767 and \$154,676 in direct expenses	330,866	206,507
Rent revenue	143,463	128,152
Interest income	13,991	49,362
Realized/unrealized gain (loss) on contributed stock	8,724	(537)
Other income	119,021	28,831
	1,599,431	1,864,690
Net assets released from donor restrictions	504,980	428,738
Total revenues, gains and support without donor restrictions	2,104,411	2,293,428
Expenses:		
Program		
Coach and Care	763,415	868,390
Invest and Revitalize - New Orleans	532,551	709,892
Educate and Engage	241,240	211,885
Total program expense	1,537,206	1,790,167
General and Administrative	287,760	329,500
Fundraising	180,911	334,147
Total expenses	2,005,877	2,453,814
Increase (decrease) in net assets without donor restrictions	98,534	(160,386)
Changes in net assets with donor restrictions:		
Contributions	409,060	855,996
Net assets released from donor restrictions	(504,980)	(428,738)
Increase (decrease) in net assets with donor restrictions	(95,920)	427,258
Increase in net assets	2,614	266,872
Net assets, beginning of year	7,100,151	6,833,279
Net assets, end of year	\$ 7,102,765	\$ 7,100,151

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

DESIRE STREET MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Coach and Care</u>	<u>Invest and Revitalize - New Orleans</u>	<u>Educate and Engage</u>	<u>Total Program Expenses</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 344,701	\$ 56,367	\$ 162,819	\$ 563,887	\$ 141,524	\$ 78,751	\$ 784,162
Benefits and payroll taxes	68,394	12,778	36,910	118,082	32,083	17,852	168,017
Total personnel	<u>413,095</u>	<u>69,145</u>	<u>199,729</u>	<u>681,969</u>	<u>173,607</u>	<u>96,603</u>	<u>952,179</u>
Strategic Partner direct grants	80,065	53,165	-	133,230	-	-	133,230
Travel, meals and accommodations	191,449	172	12,601	204,222	12,957	3,601	220,780
Professional fees	-	-	-	-	28,700	5,787	34,487
Project management	-	60,109	-	60,109	-	-	60,109
Office and administrative	4,851	364	1,054	6,269	17,532	10,983	34,784
Conferences and training	11,079	3,000	3,379	17,458	6,025	1,694	25,177
Postage and printing	194	-	3,849	4,043	3,907	4,978	12,928
Licenses, permits and registrations	-	-	-	-	177	5,125	5,302
Telephone and technology	12,210	2,263	6,536	21,009	5,681	7,820	34,510
Equipment lease	-	-	5,416	5,416	903	2,708	9,027
Rent and utilities	17,567	7,460	1,133	26,160	17,567	20,400	64,127
Repairs and maintenance	2,449	52,769	158	55,376	2,449	2,844	60,669
Depreciation	8,531	151,933	431	160,895	7,072	9,310	177,277
Marketing and public relations	-	-	-	-	-	6,898	6,898
Raising Awareness Forums	13,650	-	2,488	16,138	-	-	16,138
Insurance	8,275	71,169	4,466	83,910	11,183	2,160	97,253
Provision for bad debt	-	61,002	-	61,002	-	-	61,002
Total expenses	<u>\$ 763,415</u>	<u>\$ 532,551</u>	<u>\$ 241,240</u>	<u>\$ 1,537,206</u>	<u>\$ 287,760</u>	<u>\$ 180,911</u>	<u>\$ 2,005,877</u>

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

DESIRE STREET MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Coach and Care</u>	<u>Invest and Revitalize - New Orleans</u>	<u>Educate and Engage</u>	<u>Total Program Expense</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries and wages	\$ 343,978	\$ 107,083	\$ 145,938	\$ 596,999	\$ 131,378	\$ 147,654	\$ 876,031
Benefits and payroll taxes	68,933	22,837	31,123	122,893	28,018	31,489	182,400
Total personnel	<u>412,911</u>	<u>129,920</u>	<u>177,061</u>	<u>719,892</u>	<u>159,396</u>	<u>179,143</u>	<u>1,058,431</u>
Strategic Partner direct grants	185,105	59,525	-	244,630	-	-	244,630
Travel, meals and accommodations	169,698	12,964	4,169	186,831	8,567	9,775	205,173
Professional fees	-	7,730	-	7,730	22,400	5,481	35,611
Project management	-	152,930	-	152,930	-	-	152,930
Office and administrative	10,069	10,664	1,067	21,800	11,283	13,989	47,072
Conferences and training	14,543	992	1,353	16,888	1,218	7,529	25,635
Postage and printing	183	204	7,896	8,283	1,305	12,391	21,979
Licenses, permits and registrations	-	-	-	-	163	3,948	4,111
Telephone and technology	12,935	4,037	8,502	25,474	5,953	12,371	43,798
Equipment lease	-	-	5,804	5,804	967	2,902	9,673
Rent and utilities	15,090	27,827	974	43,891	15,090	17,524	76,505
Repairs and maintenance	7,546	10,162	487	18,195	7,546	8,763	34,504
Depreciation	6,049	153,775	390	160,214	8,064	9,870	178,148
Marketing and public relations	-	-	-	-	-	47,025	47,025
Raising Awareness Forums	26,738	3,885	785	31,408	-	-	31,408
Insurance	7,523	78,926	3,397	89,846	7,548	3,436	100,830
Provision for bad debt	-	56,351	-	56,351	80,000	-	136,351
Total expenses	<u>\$ 868,390</u>	<u>\$ 709,892</u>	<u>\$ 211,885</u>	<u>\$ 1,790,167</u>	<u>\$ 329,500</u>	<u>\$ 334,147</u>	<u>\$ 2,453,814</u>

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

DESIRE STREET MINISTRIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Increase in net assets	\$ <u>2,614</u>	\$ <u>266,872</u>
Adjustments to reconcile increase in net assets to net cash provided by operations:		
Depreciation	177,277	178,148
Net unrealized/realized gain (loss) on contributed assets	(4,844)	5,161
Contributed stock	(74,904)	(85,926)
Contributed property	(8,200)	-
Provision for bad debt (net recoveries)	(34,285)	136,351
Changes in assets and liabilities:		
(Increase) decrease in:		
Government grant reimbursements receivable	524,301	711,410
Contributions and pledges receivable	160,648	(462,684)
Other receivables	(99,948)	(19,383)
Prepaid expenses and other assets	64,470	(21,248)
Increase (decrease) in:		
Accounts payable	61,915	(144,546)
Accrued liabilities	1,623	(246,441)
Deferred revenue	97,087	27,969
Total adjustments	<u>865,140</u>	<u>78,811</u>
Net cash provided by operating activities	<u>867,754</u>	<u>345,683</u>
Cash flows from investing activities:		
Contributed stock	80,827	88,890
Investment in certificates of deposit	(1,002,802)	-
Principal payments on note receivable	-	111,959
Construction in progress	-	(189,535)
Acquisition of other property and equipment	(9,846)	(71,120)
Cash restricted for long-term purposes	<u>430,000</u>	<u>(255,000)</u>
Net cash used in investing activities	<u>(501,821)</u>	<u>(314,806)</u>
Cash flows from financing activities:		
Construction payable	<u>-</u>	<u>(949,718)</u>
Net cash used in financing activities	<u>-</u>	<u>(949,718)</u>
Net increase (decrease) in cash and cash equivalents	365,933	(918,841)
Cash and cash equivalents, beginning of year	<u>1,507,044</u>	<u>2,425,885</u>
Cash and cash equivalents, end of year	<u>\$ <u>1,872,977</u></u>	<u>\$ <u>1,507,044</u></u>

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

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies

Organization

Desire Street Ministries (the Ministry) is a nonprofit organization incorporated under the laws of the state of Louisiana on May 18, 1992. The Ministry originated with the cultivation of a redemptive community-based ministry for the people of the Desire Housing Project of New Orleans, through the teaching and practice of the Christian faith as revealed in the Holy Scriptures, both Old and New Testaments. Following Hurricane Katrina's devastation in 2005, the Ministry began to expand its reach beyond the city of New Orleans.

Today the Ministry is headquartered in Atlanta, Georgia and has transitioned from hands-on management of an inner-city ministry, to instead using a partnership model to develop and support separate urban ministries in multiple cities and states. Through partnerships, Desire Street Ministries reaches more neighborhoods than it could reach alone. With a mission *to love our neighbor by revitalizing under-resourced neighborhoods through spiritual and community development*, the Ministry is committed to three distinct programs.

First, knowing that thriving leaders produce thriving ministries that will be effective and sustainable, the Ministry *Coaches, Cares and Provides* for urban ministry leader partners who are called to live and work in impoverished neighborhoods. Second, the Ministry seeks out individuals and organizations with a heart for the inner-city, *Educates and Engages* them, and connects them with ministry leaders living and working in these neighborhoods. Finally, the Ministry *Invests and Revitalizes* in its home city, continuing its commitment to the Ninth Ward of New Orleans, Louisiana. Even though it has been more than ten years since Hurricane Katrina hit the city of New Orleans, the upper Ninth Ward continues struggling to emerge from the disaster. Since lower-income neighborhoods do not have the resources necessary for recovery, Desire Street Ministries seeks to provide wellness, hope and a sense of community by providing a community wellness center where its school for boys, Desire Street Academy, once stood.

Basis of Accounting

The Ministry prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), and in accordance with standards adopted by the American Institute of Certified Public Accountants for certain nonprofit organizations. This basis of accounting involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Basis of Presentation

To ensure observation of limitations and restrictions placed on the use of resources available to the Ministry, resources are classified for accounting and financial reporting purposes into two categories established according to their nature and purposes. The assets, liabilities and net assets are reported in two categories as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this net asset category include contributions without donor restrictions, investment income, and program service fees and related expenses associated with the Ministry’s core activities. At times, the governing board may earmark otherwise unrestricted net assets for a specified purpose. Since this is not a donor-imposed restriction, the designated asset is classified and reported a part of net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor, or certain grantor, imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Ministry had no such net assets with donor restrictions that are required to be held in perpetuity. Donor-imposed restrictions are released when a restriction expires; that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue Recognition

Contributions (including unconditional promises to give, i.e., pledges or private grants) are recognized as revenue in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges or private grants that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges or private grants that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts (if any) is included in contributions in the accompanying statements of activities and changes in net assets. Conditional pledges or private grants are not included as support until the conditions are substantially met.

The Ministry recognizes contributions as restricted support if they are received with donor imposed restrictions that limit the use of the donated assets. When a donor-imposed restriction is met or the passage of time expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and presented in the accompanying statements of activities as net assets released from donor restrictions.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Revenue Recognition – Continued

The Ministry records gifts of land, buildings, and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Land held for sale, other assets and marketable securities acquired by gift are recorded at fair market value on the date of the receipt.

Donated services received that either create or enhance non-financial assets or require specialized skills which would need to be purchased if not donated are recorded at the value of those donated services. There were no donated services received for the years ended 2018 and 2017.

Donated material and equipment are reflected as contribution income and expense in the accompanying financial statements at their estimated values at the date of receipt. For the years ended June 30, 2018 and 2017, the estimated value of these donated materials and equipment was \$24,542 and \$15,543, respectively, and is reflected in these financial statements as contributions without donor restrictions and special event revenue.

Special events revenue is recognized in the period in which the event is held.

Cash and Cash Equivalents and Concentration of Credit Risk

The Ministry considers all highly liquid investments with maturities of three months or less to be cash equivalents. Cash and cash equivalents consist principally of demand deposits at four commercial banks. The account balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. At June 30, 2018 and 2017, cash balances in excess of the FDIC limit totaled \$1,126,731 and \$1,247,955, respectively.

In addition, the Ministry maintains certificates of deposit at a single investment firm. Certificates held in the Ministry's account and issued by commercial banks are insured by the FDIC up to \$250,000 per financial institution. As of June 30, 2018, the certificates of deposit balances in excess of the FDIC limit totaled \$253,376. Further, the Ministry's certificates of deposit held by the investment firm are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000. As of June 30, 2018, balances in excess of the SIPC insured limits totaled \$502,802. The Ministry did not have any certificates of deposit at June 30, 2017.

The Ministry's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, certificates of deposit, restricted cash, receivables and the note payable. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Note Receivable

The carrying amount of the note receivable is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected, when applicable. Management individually reviews all note receivable balances that exceed 90 days from the invoice date, and based on an assessment of current creditworthiness, past payment history and historical loss experience, management estimates the portion, if any, of the balance that will not be collected. Finally, the allowance is adjusted for management's estimate of any changes in future economic conditions that might give rise to results that differ from past experience. Interest income is recorded under the interest method in accordance with GAAP.

Allowance for Doubtful Accounts

The Ministry uses the allowance method to determine uncollectible grants receivable, unconditional promises to give and other receivables. The allowance is based on a number of factors including prior years' collection experience and management's analysis of specific accounts.

Investments

It is the Ministry's policy to sell donated stocks immediately upon receipt. Any investment income or loss (including realized and unrealized gains and/or losses, interest and dividends) is included in the statements of activities as an increase or decrease in net assets without donor restrictions unless restricted by donor or law.

Property and Equipment

It is the policy of the Ministry to capitalize expenditures for property and equipment in excess of \$1,000. Depreciation of property and equipment is provided over the estimated useful lives on the respective assets on a straight-line basis as follows:

Buildings and improvements	5 - 39 years
Land improvements	7 years
Equipment	3 - 7 years
Furniture and fixtures	7 years
Playground	10 years
Vehicles	5 years
Computers and software	3 - 7 years

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Real Property Held for Sale

Real property held for sale includes both donated property and in-substance foreclosed property. In-substance foreclosed property is real property for which the Ministry has taken physical possession, even though formal foreclosure proceedings did not take place.

At the time the Ministry takes physical possession of the Property, it is recorded at fair value less estimated costs to sell, which becomes the Property's new basis. Periodic valuations are performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Costs incurred in maintaining foreclosed real estate and subsequent impairment adjustments to the carrying amount of a property, if any, are included in expense.

Deferred Revenue

The Ministry occasionally receives sponsorship funds in advance for its annual fundraising event held in October. The amounts in deferred revenue liability represent sponsorships received for the subsequent fiscal year's event.

Functional Allocation of Expenses

The costs of providing the various programs and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the various programs and supporting services benefited as required by GAAP. Those expenses include personnel related, technology, cloud subscriptions, rent and depreciation. Personnel and staff related expenses (e.g. benefits, training, etc.) are allocated based on a time study of where staff efforts are focused. Technology and cloud subscriptions are allocated in part using the staff allocation and in part evaluating the program or supporting activity benefited. Occupancy and depreciation is allocated based on a cost study of how the assets are utilized by the Ministry.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

The Ministry is exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code. GAAP requires management to evaluate tax positions taken and recognize a tax liability (or asset) if the Ministry has taken an uncertain position that would be sustained upon examination by a taxing authority. Management has analyzed the tax positions taken by the Ministry, and has concluded that as of June 30, 2018 and 2017, there were no uncertain positions taken or suspected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

1. Nature of Organization and Significant Accounting Policies – Continued

Income Taxes – Continued

Accordingly, no provision or benefit for income taxes has been recorded in the accompanying financial statements. The IRS Form 990's are subject to examination by the appropriate regulatory authorities for all open years, which typically include the last three years filed.

New Accounting Policy

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements for Not-For-Profit Entities*, which improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity's (NFP's) liquidity, financial performance, and cash flows. The guidance requires retrospective application. The Ministry early adopted this guidance for the year ended June 30, 2018. Accordingly, the combined financial statements as of and for the year ended June 30, 2017 have been modified to conform to this new presentation. This new accounting policy did not affect net assets.

Reclassification s

Amounts previously reported have been reclassified to conform to the current year financial statement presentation.

Subsequent Events

Subsequent events have been evaluated through December 11, 2018, which is the date the financial statements were available to be issued, and there were no significant subsequent events, except those disclosed in Notes 6 and 8.

2. Liquidity and Availability of Financial Assets

The Ministry is substantially supported by contributions without donor restrictions. However, the Ministry sometimes receives contributions with donor restrictions for various programs as well as for capital projects. Because a donor's restrictions require funds to be used in a particular manner or in a future period, the Ministry maintains those restricted funds so that they are available to meet those responsibilities as they are required to be met.

In addition, the Ministry's Board of Directors established an operating reserve to sustain financial operations in the event of an unexpected event or economic down turn. Accordingly, related financial assets are not available to the Ministry for its general expenditures. General expenditures may be incurred for program, fundraising, or administrative purposes.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

2. Liquidity and Availability of Financial Assets – Continued

The following table presents the Ministry’s financial assets as of June 30, 2018, reduced by amounts that are not available to meet general expenditures within one year of the statement of financial position date because of contractual restrictions, donor restrictions or internal board designations:

	Financial Assets June 30, 2018	Not Available Due To		Net Available for General Expenditures
		Internal Board Designation	Donor Imposed Purpose Restrictions	
Cash and cash equivalents	\$ 1,872,977	\$ -	\$ -	\$ 1,872,977
Certificates of deposit	1,002,802	917,378	-	85,424
Government grant reimbursements receivable	71,451	-	-	71,451
Contributions and pledges receivable, net	485,095	-	313,845	171,250
Other receivables	114,941	-	-	114,941
	<u>\$ 3,547,266</u>	<u>\$ 917,378</u>	<u>\$ 313,845</u>	<u>\$ 2,316,043</u>

The Ministry structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Ministry regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Ministry has various sources of liquidity at its disposal, including cash and cash equivalents and certificates of deposit.

3. Government Grant Reimbursements Receivable

During 2005, Hurricane Katrina severely damaged Desire Street Ministries’ facilities in New Orleans, Louisiana, and in 2008, Hurricane Gustav damaged the Ministry’s temporary facility located in Baton Rouge, Louisiana. In 2011, the Ministry applied for and was awarded initial project grants totaling \$9.6 million from the U.S. Department of Homeland Security Federal Emergency Management Agency (FEMA) to repair the damage to its temporary facility and rebuild its facilities in New Orleans which included a school. The Ministry experienced ongoing difficulty in obtaining the school’s charter, resulting in multiple project delays and putting the original grant at risk.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

3. Government Grant Reimbursements Receivable – Continued

When FEMA announced a deadline for submission of alternate projects, the Ministry elected to present an alternate project plan to FEMA that did not include a school, and FEMA gave approval for the alternate project at the beginning of 2014. The purpose of the approved alternate project is to build a community center made up of three buildings: a medical center, a community wellness center and a child development center. As of June 30, 2018 and 2017, the total project grants awarded with revisions for the Katrina Disaster was \$10.6 million.

The Ministry receives reimbursements for a portion of these rebuilding funds as well as for other damages (relating to costs incurred for temporary facilities, contents, etc.) from the State of Louisiana Governor’s Office of Homeland Security and Emergency Preparedness (GOHSEP). For the year ended June 30, 2018, the Ministry recognized a total of \$19,844 against the total grant awards and had cumulatively received a total of \$10.4 million in grant awards for the Katrina Disaster.

During 2016, all of the grants awarded for the Gustav Disaster were closed, and as of June 30, 2016, the Ministry had cumulatively received \$172,398 against the total awards for the Gustav disaster.

Receivables arise when eligible grant expenses are incurred. The Ministry’s ability to collect reimbursable amounts is affected by the outside agencies’ acceptance of reimbursable expenses, which must meet the grant requirements. Management believes that the government grant reimbursements receivable at June 30, 2018 are fully collectible and will be collected during fiscal 2019.

As of June 30, the following FEMA project receivables were outstanding:

2018		
Project Worksheet	Description	Amount
PW 19243	Desire Street Ministries Community Center	\$ 13,994
PW 19422	Desire Street Ministries Community Center - Contents	2,710
PW 21038	Desire Street Ministries Direct Administrative Costs	54,747
	Total government grant reimbursements receivable	\$ 71,451

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3. Government Grant Reimbursements Receivable – Continued

2017		
Project Worksheet	Description	Amount
PW 19243	Desire Street Ministries Community Center	\$ 273,709
PW 19422	Desire Street Ministries Community Center - Contents	276,865
PW 21038	Desire Street Ministries Direct Administrative Costs	45,178
	Total government grant reimbursements receivable	\$ 595,752

4. Contributions and Pledges Receivable, net

Contributions and pledges receivable, net consist of the following at June 30:

	2018	2017
Pledges due within one year	\$ 221,250	\$ 268,486
Pledges due in two years	219,949	194,986
Pledges due in three years	54,000	144,986
Pledges due in four years	-	50,000
Gross contributions and pledges receivable	495,199	658,458
Present value discount (1.25% and 1% effective rate)	(10,104)	(12,715)
Pledges and contributions receivable, net	\$ 485,095	\$ 645,743

Management believes all pledges and contributions receivable at June 30, 2018 are fully collectible. Therefore, no allowance for doubtful accounts has been established for these amounts.

5. Note Receivable, Net

In 2006, the Ministry purchased a building and land in Baton Rouge, Louisiana as a temporary home for Desire Street Academy (the Academy), which was subsequently closed in 2009. The Ministry sold the property in March 2012 to a charter school and obtained a note receivable in connection with this sale. The note receivable had an original balance of \$1,272,500 with an interest rate of 6%, due in monthly installments of \$14,127 beginning in May 2012. The note was a three-year note based on a ten-year amortization schedule with a maturity date of April 2015. The note was subsequently extended to mature in December 2018 with a prospective rate increase to 6.25%. The note was collateralized by the property. The balance of the note receivable, net as of June 30, 2017 of \$642,359 was comprised of the outstanding receivable of \$724,109 less the estimated allowance for uncollectible account of \$81,750.

DESIRE STREET MINISTRIES
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5. Note Receivable, Net – Continued

In late 2017, the note receivable went into default as the charter school was no longer a viable entity. The note was placed on a non-accrual status and conversations were held with the borrower to determine how their debt could be satisfied. On February 5, 2018, the borrower executed a Dation En Paiement (Dation) on the 23-acre tract of land and buildings located in the East Baton Rouge Parish of Louisiana used to collateralize the note. The Dation effectively satisfies the debt to the Ministry via the borrower’s transferring the collateralized property to the Ministry in lieu of cash payment. Management believes that the fair value of the property on the date the Dation was executed was sufficient to satisfy the outstanding note balance and associated collection costs. The balance of in-substance foreclosed real estate at June 30, 2018 was \$645,283 and is included in real property held for sale in the statement of financial position, and as further described in Note 6.

6. Real Property Held for Sale

Real property held for sale totaling \$652,283 as of June 30, 2018 included the 23-acre tract of land and buildings located in the East Baton Rouge Parish of New Orleans, Louisiana received in lieu of payment on an outstanding note receivable in the same amount (see Note 5). Also included in the balance for the year ended June 30, 2018 and 2017 was a \$7,000 single undeveloped land lot located in Pine Coast, Florida. Both properties have been listed and are being actively marketed.

Subsequent to year end on December 11, 2018, the Ministry sold the single acre lot of land in Florida for \$14,000.

7. Property and Equipment, Net

The following is a summary of property and equipment, net at cost as of June 30:

	2018	2017
Buildings and improvements	\$ 3,575,224	\$ 3,575,224
Land and improvements	317,400	309,200
Equipment	58,726	58,726
Furniture and fixtures	8,943	8,943
Playground	74,746	74,746
Vehicles	31,052	31,052
Computers and software	86,550	83,236
	4,152,641	4,141,127
Less accumulated depreciation	(516,856)	(342,108)
Property and equipment, net	\$ 3,635,785	\$ 3,799,019

DESIRE STREET MINISTRIES
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7. Property and Equipment, Net – Continued

Depreciation expense for the years ended June 30, 2018 and 2017 was \$177,277 and \$178,148, respectively.

8. Debt

On June 23, 2016, the Ministry obtained a \$500,000 note payable from a private individual that is due June 23, 2026 and bears interest at 2 percent. Interest only payments are payable annually each June.

Subsequent to year end on August 17, 2018, the Ministry paid the \$500,000 note payable in full including accrued interest.

9. Operating Leases

The Ministry currently leases certain equipment and office space under non-cancelable operating leases. Total rent expense under these operating leases for the years ended June 30, 2018 and 2017 was \$65,693 and \$51,775, respectively.

The aggregate future minimum lease payments for the operating leases are as follows:

<u>Year ending June 30,</u>	
2019	\$ 24,897
2020	59,282
2021	<u>19,955</u>
	<u>\$ 104,134</u>

10. Board Designated Net Assets

As discussed in Note 2, a portion of net assets without donor restrictions has been designated by the Board as an operating reserve to sustain financial operations in the event of an unexpected event or economic downturn. The designated operating reserve totaled \$917,378 and \$1,103,771, respectively, for the years ended June 30, 2018 and 2017.

DESIRE STREET MINISTRIES
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11. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of cash contributions and pledges receivable the Ministry has received subject to donor- imposed restrictions consisting of the following at June 30:

	2018	2017
Program restrictions:		
Strategic Partners	\$ 85,140	\$ 50,000
Community Engagement	50,000	-
Thriving Index	8,944	8,944
Building project	270,000	430,000
Total program purpose restrictions	414,084	488,944
Staffing	49,898	124,958
Multi-year contributions and other time restricted	74,000	20,000
Total net assets with donor restrictions	\$ 537,982	\$ 633,902

12. Net Assets Released from Donor Restrictions

The following net assets were released from donor restrictions by incurring expenditures satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended June 30:

	2018	2017
Program restriction accomplished:		
Strategic Partner	\$ 245,130	\$ 70,870
Community Engagement	20,000	-
Partner retreats	1,725	4,500
Building project	160,000	303,326
Total program restriction releases	426,855	378,696
Other releases of restrictions:		
Staffing	75,060	50,042
Other	3,065	-
Total net assets released from restrictions	\$ 504,980	\$ 428,738

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13. Commitments and Contingencies

The Ministry receives financial assistance from federal agencies, which can be subject to compliance audits under the Uniform Guidance (Single Audit) and monitoring review by the granting agencies. Such agencies have the authority to determine liabilities as well as to limit, suspend, or terminate the federal programs. As a result, amounts might be subject to disallowance upon acceptance of the audits and monitoring reviews by the federal granting agencies. For conservatism and due to the nature and uncertainty of the large government grant receipts in fiscal 2016, the Ministry had established a \$337,000 reserve for grant close-out adjustments as of June 30, 2016. Based on reconciliations with GOHSEP in fiscal 2017, the reserve was reduced to \$95,287 at June 30, 2017 and was eliminated entirely at June 30, 2018.

For the years ended June 30, 2018 and 2017, the Ministry received approximately 1% and 15%, respectively, of its current year revenue through federal government funding. Receivables arise from reimbursements owed through these government contracts as further described in Note 3. The Ministry's ability to collect amounts due is affected by the outside agencies' acceptance of reimbursable expenses and performance-based outcomes which meet contract requirements.

14. Retirement Plan

During fiscal 2015, the Ministry established a 403(b) Pension Plan that covers substantially all employees who are twenty-one years of age or older and have completed at least one year of service. Each employee is fully vested among entrance to the plan. The plan provides for participant contributions up to the maximum allowed under the Internal Revenue Code. The Ministry may make matching contributions at the discretion of the Board of Directors. There were no discretionary matching contributions for the years ended June 30, 2018 and 2017.

DESIRE STREET MINISTRIES
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15. Schedule of Compensation, Benefits, and Other Payments to Agency Head

As required by the Louisiana Legislative Auditor, the schedule of compensation, benefits, and other payments to agency head for the Ministry’s Executive Director for the year ended June 30, 2018 is as follows:

Agency Head Name: Daniel C. Wuerffel

Purpose	Amount	
Salary	\$ 129,500	*
Benefits - insurance	24,093	*
Benefits - retirement	-	
Benefits	-	
Car allowance	-	
Vehicle provided by government	-	*
Per diem	-	
Reimbursements	2,400	*
Travel	-	
Registration fees	-	
Conference travel	1,826	*
Continuing professional education fees	3,438	*
Housing	-	
Unvouchered expenses	-	
Special meals	-	
Other - vehicle provided by organization	1,608	*

*Disbursement was not derived from the public funds the nonprofit receives. Public funds for purposes of this analysis are defined as Louisiana state and/or local governmental funds and/or federal funds passed through a Louisiana state or local government agency.