

**HTB** Hannis T. Bourgeois, LLP  
Certified Public Accountants

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May 11, 2011

Mr. Daryl G. Purpera, CPA  
Legislative Auditor  
State of Louisiana  
P.O. Box 94397  
Baton Rouge, LA 70804

Re: Desire Street Ministries Audit for  
the Six Months Ended June 30, 2009

Dear Mr. Purpera:

As requested by Ms. Tonya Forbes of your office, we are reissuing our audit and management letter of Desire Street Ministries for the six months ended June 30, 2009 since the management letter was not included with the original transmittal.

Sincerely,

HANNIS T. BOURGEOIS, LLP

By: Monica L. Zumo  
Monica L. Zumo, CPA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/8/11

REISSUE

DESIRE STREET MINISTRIES, INC.

JUNE 30, 2009

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April 21, 2010

Independent Auditor's Report

To the Board of Directors  
Desire Street Ministries, Inc.

We have audited the accompanying Statement of Financial Position of Desire Street Ministries, Inc. (a nonprofit organization) as of June 30, 2009 and the related Statements of Activities and Cash Flows for the six months then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Desire Street Ministries, Inc. as of June 30, 2009 and the changes in its net assets and its cash flows for the six months then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2010, on our consideration of Desire Street 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Desire Street Ministries, Inc. taken as a whole. The accompanying Schedule of Heifer Project International Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Respectfully submitted,

*Hanniss T. Bourgeois, LLP*

**DESIRE STREET MINISTRIES, INC.**

**STATEMENT OF FINANCIAL POSITION**

JUNE 30, 2009

**ASSETS**

**Current Assets:**

Cash and Cash Equivalents	\$ 173,279
Other Receivable	118,000
Prepaid Expenses	81,897
Total Current Assets	373,176

**Property and Equipment, Net**

4,966,051

**Other Assets**

8,563

Total Assets

\$5,347,790

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts Payable	\$ 196,944
Current Portion of Long-Term Debt	71,627
Accrued Expenses	139,024
Total Current Liabilities	407,595

**Long-Term Debt**

535,443

**Net Assets:**

Unrestricted	4,196,254
Temporarily Restricted	208,498
Total Net Assets	4,404,752
Total Liabilities and Net Assets	<u>\$5,347,790</u>

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

**DESIRE STREET MINISTRIES, INC.**

STATEMENT OF ACTIVITIES

FOR THE SIX MONTHS ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>Support and Revenue:</b>			
Public Support and Fund Raising - Academy	\$ -	\$ 173,607	\$ 173,607
Public Support and Fund Raising - Ministries	653,382	113,253	766,635
Athletic Proceeds	-	2,800	2,800
Growing Desire	-	30,295	30,295
In-Kind Support	38,130	-	38,130
Interest Income	18	-	18
State Grant Income	-	155,515	155,515
Rental Income	42,510	1,000	43,510
Tuition	-	13,624	13,624
	<u>734,040</u>	<u>490,094</u>	<u>1,224,134</u>
<b>Net Assets Released from Restriction</b>	<u>424,080</u>	<u>(424,080)</u>	<u>-</u>
<b>Total Support and Revenue and Net Assets Released from Restrictions</b>	<u>1,158,120</u>	<u>66,014</u>	<u>1,224,134</u>
<b>Expenses:</b>			
Program Services - Academy	884,230	-	884,230
Program Services - Ministries	560,078	-	560,078
Management and General	246,869	-	246,869
Fund Raising	262,544	-	262,544
<b>Total Expenses</b>	<u>1,953,721</u>	<u>-</u>	<u>1,953,721</u>
<b>Other Income (Expense):</b>			
Other Income	52,363	-	52,363
Realized Gain on Sale of Investments	1,055	-	1,055
Loss on Disposal of Fixed Assets	(2,309)	-	(2,309)
<b>Total Other Income (Expenses)</b>	<u>51,109</u>	<u>-</u>	<u>51,109</u>
<b>Increase (Decrease) in Net Assets</b>	<u>(744,492)</u>	<u>66,014</u>	<u>(678,478)</u>
<b>Net Assets at Beginning of Year</b>	<u>4,940,746</u>	<u>142,484</u>	<u>5,083,230</u>
<b>Net Assets at End of Year</b>	<u><u>\$4,196,254</u></u>	<u><u>\$ 208,498</u></u>	<u><u>\$4,404,752</u></u>

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

**DESIRE STREET MINISTRIES, INC.**

**STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED JUNE 30, 2009

**Cash Flows from Operating Activities:**

Decrease in Net Assets	\$ (678,478)
Adjustments to Reconcile the Decrease in Net Assets to Net Cash Used in Operating Activities:	
Depreciation	149,417
Loss on Disposal of Fixed Assets	2,309
Donated Investments	(10,440)
Net Realized and Unrealized (Gains) Losses on Investments	(1,055)
Changes in Assets and Liabilities:	
(Increase) Decrease in Insurance and Other Receivables	(31,057)
(Increase) Decrease in Prepaid Expenses	(45,624)
(Increase) Decrease in Other Assets	(1,863)
Increase (Decrease) in Accounts Payable	93,421
Increase (Decrease) in Accrued Expenses	53,985
Net Cash Used in Operating Activities	(469,385)

**Cash Flows from Investing Activities:**

Proceeds from Sale of Equipment	7,000
Proceeds from Sale of Investment Securities	11,495
Net Cash Provided by Investing Activities	18,495

**Cash Flows from Financing Activities:**

Proceeds from Debt	192,212
Repayments of Long-Term Debt	(26,737)
Net Cash Provided by Financing Activities	165,475

Net Decrease in Cash and Cash Equivalents	(285,415)
Cash and Cash Equivalents - Beginning of Year	458,694
Cash and Cash Equivalents - End of Year	\$ 173,279

**Supplemental Disclosures of Cash Flow Information:**

Cash Payments for Interest	\$ 17,115
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The accompanying notes are an integral part of these financial statements.

# DESIRE STREET MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### **Note 1 - Summary of Significant Accounting Policies -**

#### Nature of Activities

Desire Street Ministries, Inc (Ministry) was organized as a non-profit corporation without stock under the laws of the State of Louisiana on May 13, 1992. The Ministry seeks to love its neighbor by revitalizing impoverished neighborhoods through spiritual and community development. It began with the cultivation of a redemptive community-based ministry for the people of the Desire Housing Project of New Orleans, through the teaching, propagation and practice of the Christian religion as revealed in the Holy Scriptures, both Old and New Testaments.

In 2002, the Ministry launched Desire Street Academy (Academy), a junior/senior high school for African American Males. The Academy was formed to help in the transformation of the community by training students to be leaders through pursuing excellence in academics, athletics and the arts in a Christian context. Since Hurricane Katrina, the Academy has transitioned to Florida, Baton Rouge, and now back to New Orleans. The Academy is operating on a small scale in the original ministry building to finish its commitment to the remaining New Orleans seniors who were with the Ministry prior to Katrina. Future educational goals are to pursue charter schools in Baton Rouge and New Orleans.

The Ministry is continuing the help rebuild the Ninth Ward of New Orleans, and has begun replication of its ministry model by partnering with community ministries in Montgomery, Alabama, Lakeland, Florida, and Atlanta, Georgia. The vision of Desire Street Ministries national is to develop 12 thriving and sustainable urban ministries before 2015, by equipping, connecting and encouraging leaders.

Effective January 1, 2009, the Ministry changed its year end to June 30. Therefore, these financial statements are for the six month period from January 1, 2009 through June 30, 2009.

#### Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting and in accordance with the principles of not-for-profit accounting.

#### Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statement of Not-for-Profit Organizations*. Under SFAS No. 117, the Ministry 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, as applicable. The Ministry does not have permanently restricted net assets at June 30, 2009.

#### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and

liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Support

All support is considered available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Ministry has been awarded a 3 year Growing Desire grant from Heifer International that will fund the operations in accordance with the budget as determined by Heifer International. Under this Growing Desire program, Heifer International is providing funds to the Ministry to use gardening and other agricultural experiences to further Desire Street Academy's mission of providing academic, leadership, and life skills to 260 inner city youths.

### Contributed Services

The Ministry recognizes contribution revenue for certain services received at the fair value of those services provided those services create or enhance nonfinancial assets or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased, if not provided by donation. During the six months ended June 30, 2009, the value of these services was deemed immaterial and is not reflected in these financial statements.

### Donated Materials

Donated materials and equipment are reflected as contribution income and expense in the accompanying financial statements at their estimated values at the date of receipt.

### Cash and Cash Equivalents

For purposes of reporting cash flows, cash equivalents include all highly liquid debt instruments and certificates of deposit with maturities of three months or less when purchased.

### Investments

Investments in all debt and equity securities with a readily determinable fair value are reported at their fair value in accordance with Statement of Financial Accounting Standards (SFAS) No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations."

### Property and Equipment

Property and equipment are recorded at cost or at fair market value at the date of the gift. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis.

### Concentration of Credit Risk

At times during the period, the Ministry had bank balances in excess of federally insured limits.

### Allocation of Expenses

Certain costs have been allocated among the programs and supporting services based on the time spent on each function.

### Concentration of Support

During the six months ended June 30, 2009, there were no significant concentrations of support.

### Income Taxes

The Ministry is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the accompanying financial statements.

### **Note 2 - Property and Equipment -**

The details of property and equipment as of June 30, 2009, are as follows:

Automobiles	\$ 237,567
Building	4,931,553
Furniture, Fixtures and Equipment	<u>352,193</u>
	5,521,313
Less: Accumulated Depreciation	<u>(1,168,464)</u>
	4,352,849
Land	<u>613,202</u>
	<u>\$ 4,966,051</u>

Depreciation expense for the six months ended June 30, 2009 was \$149,417.

### **Note 3 - Long-Term Debt -**

Whitney Bank - Original balance of \$260,159 at a rate of 8.25% with 59 monthly payments of \$5,151 with the last payment due May 31, 2012.	\$ 169,380
Wachovia Bank - Original balance of \$275,000 at a rate of 7.25% with 120 monthly payments of \$3,244, the note matures on December 5, 2017.	245,478
Anonymous Individual - Original balance of \$250,000 at a rate of 0% with 60 monthly payments of \$4,167 beginning July 1, 2010, the note matures on June 1, 2015.	<u>192,212</u>
	607,070
Current Portion of Long-Term Debt	<u>(71,627)</u>
Long-Term Debt	<u>\$ 535,443</u>

Maturities of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
2011	\$ 98,244
2012	128,947
2013	68,276
2014	73,613
Thereafter	<u>166,363</u>
	<u>\$ 535,443</u>

**Note 4 - Operating Leases -**

The Ministry leases certain equipment and office space under non-cancelable operating leases. Total lease expense for the six months ended June 30, 2009 amounted to \$22,400. Future minimum lease payments under leases that have remaining non-cancelable terms in excess of one year at June 30, 2009 are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 41,855
2011	41,975
2012	8,229
2013	7,604
2014	<u>1,046</u>
	<u>\$ 100,709</u>

**Note 5 - Restrictions of Net Assets -**

The details of temporarily restricted net assets are as follows:

Kaluchie Wear	\$ 6,646
St Roch Church Fund	15,000
Summer Activities	29,232
Desire Street Academy	1,000
Growing Desire Program	31,620
Baton Rouge Building Fund	<u>125,000</u>
	<u>\$ 208,498</u>

**Note 6 - Net Assets Released from Restrictions -**

Net assets released from donor restrictions for incurring expenses satisfying the restricted purposes are as follows:

Medical Clinic	\$ 6,150
Staff Support	17,189
Lunch Program	42,602
Summer Camp Fees and Other	127,396
Desire Street Academy	184,516
Growing Desire Program	8,513
New Orleans Building Fund	5,515
Urban Institute	4,696
St Roch Church Fund	14,703
Strategic Planning	10,000
Athletics	<u>2,800</u>
	<u>\$ 424,080</u>

**Note 7 - Grant Awarded -**

The 3-year Growing Desire grant awarded to the Ministry from Heifer International will provide the Ministry with total funding in the amount of \$95,910. The following schedule details the funding timeframe:

2008	\$ 39,940
2009	30,295
2010	<u>25,675</u>
	<u>\$ 95,910</u>

SUPPLEMENTARY INFORMATION

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

**DESIRE STREET MINISTRIES, INC.**

**SCHEDULE OF HEIFER PROJECT INTERNATIONAL ASSISTANCE**

**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

Net Assets at December 31, 2008 (HPI Funds)	\$ 9,838
Funds Received from HPI During the Period	30,295
Expenditures During the Period	<u>8,513</u>
Net Assets at June 30, 2009 (HPI Funds)	\$ <u>31,620</u>

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April 21, 2010

Board of Directors  
Desire Street Ministries, Inc.

We have audited the financial statements of Desire Street Ministries, Inc. (Ministry), as of and for the six months ended June 30, 2009, and have issued our report thereon dated April 21, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ministries' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ministries' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ministries' internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Ministries' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Ministries' financial statements that is more than inconsequential will not be prevented or detected by the Ministries' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ministries' internal control.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ministries' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs as item 2009-1.

We noted certain matters that we reported to management of the Ministry in a separate letter dated April 21, 2010.

This report is intended solely for the information and use of management, the audit committee, others within the Ministry, the Board of Directors, and grantor agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Nannia T. Bourgeois, LLP*

**DESIRE STREET MINISTRIES, INC.**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

**2009-1 Lunch Program Documentation**

**Finding:**

During the current period, the Ministry could not locate the attendance records which are used to determine the number of daily meals served. These records are the supporting documentation for the monthly reimbursement requests for the Louisiana Department of Education which are submitted via the internet. Once the Academy was closed at the end of the 2008 - 09 school year in May, the cafeteria was cleaned out and the records were misplaced. As a result, we were unable to verify the accuracy of the monthly submissions.

**Recommendation:**

We recommend the Ministry implement a policy to maintain proper supporting documentation for all grants for a period of time in accordance with specific grant agreements.

**Management's Response:**

Management has now established and implemented a policy to maintain proper supporting documentation for all grants for a period of time in accordance with specific grant agreements.

**DESIRE STREET MINISTRIES, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2009**

**2008-1 Bank Reconciliations**

**Finding:**

During the prior year, it was noted that bank reconciliations were not prepared in a timely manner during the year. As part of the reconciliation of the various accounts, there were a number of outstanding items noted which could not be accounted for. As a result, numerous adjusting journal entries were recorded to adjust the account balances to actual at December 31, 2008.

**Recommendation:**

We recommended all bank reconciliations be prepared upon receipt of the appropriate bank statements each month. This timely reconciliation of the accounts will give the Ministry an accurate account of its cash position, as well as ensure that all outstanding items are identified and monitored.

**Corrective Action Taken:**

During the current period, the Ministry implemented a policy to reconcile all bank accounts in a timely manner each month. At the time of our audit, all bank reconciliations for the six month period ended June 30, 2009 were complete.

**2008-2 Contribution Documentation**

**Finding:**

During our prior year contribution testing, it was noted that documentation from the donor wasn't being obtained on all donations received by the Ministry. As a result, we could not determine the existence of any donor imposed restriction on several of the items selected for testing.

**Recommendation:**

When a non-profit organization accepts a restricted contribution, its management and Board of Directors accepts special fiduciary responsibilities to ensure that the assets are used in accordance with the donor's restrictions. We recommended that written documentation from the donor be required to describe any donor stipulations. The contributions should then be recorded accordingly based on the restrictions placed by the donor.

**Corrective Action Taken:**

During the current period, the Ministry implemented a policy to obtain the proper documentation to support donor restrictions. During our testing of contributions, we noted that proper supporting documentation was maintained for all contributions that were selected. The contributions tested were correctly recorded as restricted or unrestricted based on any donor stipulations.

### **2008-3 Expense Documentation**

#### **Finding:**

During our prior year expense testing, it was noted that the proper supporting documentation had not been maintained for several invoices and credit card purchases. As a result, we could not determine the nature of the expenses and if the expenses were properly classified in the general ledger.

During the current period, we noted that proper supporting documentation was not available for one of the twenty-five items selected for testing.

#### **Recommendation:**

We recommended and continue to recommend the implementation of a policy whereby supporting documentation is maintained for all Ministry expenses. This will ensure proper classification in the general ledger.

### **2008-4 Net Assets**

#### **Finding:**

During the prior year, we noted that the net asset balance per the general ledger at December 31, 2008 did not agree to the net asset balance per the December 31, 2007 audited financial statements. The Ministry was not able to provide an explanation for the difference. It appears some transactions were backdated into the 2007 calendar year. The necessary adjustments were made by us during the audit.

#### **Recommendation:**

We recommended the Ministry implement a policy to ensure that all transactions are recorded in the appropriate accounting period. This will ensure that no transactions are backdated, and the net assets per the general ledger will agree with the audited financial statements.

#### **Corrective Action Taken:**

During the current period, it was noted that the net assets per the general ledger agreed to the December 31, 2008 audited financial statements.

### **2008-5 Fixed Assets**

#### **Finding:**

During the prior year, we noted several fixed assets that were improperly expensed in the general ledger. There were also numerous items recorded as fixed assets that were below the Ministry's capitalization policy. We also noted several disposals that were not properly reflected in the general ledger. The necessary adjusting entries were recorded to correct these items at December 31, 2008.

#### **Recommendation:**

We recommended the Ministry implement a policy to reconcile the fixed asset listing to the general ledger on a monthly basis. This would include ensuring that fixed assets are properly capitalized, items under the Ministry's capitalization policy are properly expensed, and disposals are properly recorded in the general ledger.

Corrective Action Taken:

During the current period, the Ministry implemented a policy to reconcile the fixed asset listing to the general ledger on a monthly basis. As a result, the fixed asset listing agreed to the general ledger as of June 30, 2009.

**2008-6 Employee Advances**

Finding:

During our prior year testing, we noted a balance in the general ledger for employee advances at December 31, 2008. Management was unsure of the origin of the advance and any related details. It was determined this amount was not truly an employee advance. An adjusting entry was recorded to adjust this balance at December 31, 2008.

Recommendation:

We recommended the Ministry implement a policy to not advance funds to employees. However if funds are advanced, management should have a signed repayment agreement with the employee. These advances should be reconciled on a monthly basis.

Corrective Action Taken:

During the current period, the Ministry implemented a policy whereby funds will not be advanced to employees. Any exceptions to the policy will be approved by the Executive Director. If an advance is approved, the proper documentation will be obtained relating to repayment terms. As of June 30, 2009, there were no such advances.

**2008-7 Payroll Liabilities**

Finding:

During the prior year, it was noted that various payroll tax liabilities were not being reconciled on a regular basis. This resulted in misstatements to these liability accounts at December 31, 2008. The appropriate adjusting journal entries were recorded to adjust the various accounts to actual at December 31, 2008.

Recommendation:

We recommended the implementation of a policy to reconcile the payroll liability accounts on a regular basis. The quarterly payroll reports should be reviewed for accuracy and the general ledger should be adjusted accordingly. This will ensure the payroll liabilities will remain accurately recorded in the general ledger.

Corrective Action Taken:

During the current period, the Ministry implemented a policy to reconcile the payroll liabilities on a monthly basis and to review all quarterly payroll reports for accuracy. As of June 30, 2009, the payroll liability accounts were reconciled.

## **2008-8 Pledge Receivable**

### Finding:

During the prior year, the pledge receivable in the general ledger had not been reconciled to the subsidiary ledger. As a result, adjusting entries were needed to agree the general ledger to the subsidiary ledger. It was noted that several cash receipts received on pledges in the current year were recorded as revenue instead of properly reversing the pledge receivable. In addition, it was noted that the remaining pledges on the subsidiary ledger were considered uncollectible. The appropriate adjusting entries were made to write off the uncollectible pledges.

### Recommendation:

We recommended the implementation of a policy to reconcile the pledge receivable subsidiary ledger to the general ledger on a regular basis. In addition, all cash receipts relating to pledge receivables should offset the outstanding pledge receivable. Management should also review the pledge receivable subsidiary ledger on a regular basis to determine the collectability of the pledges.

### Corrective Action Taken:

In the current period, the Ministry began formalizing their reconciliation of the donor system information to the general ledger. This reconciliation will be performed on a monthly basis. As of June 30, 2009, there were no outstanding pledge receivables.

## **2008-9 Accounts Payable**

### Finding:

During the prior year, we noted that the accounts payable per the general ledger did not agree with the accounts payable aging subsidiary ledger at December 31, 2008. Management was not able to determine the cause of the difference. It was determined that the accounts payable subsidiary ledger was correct at December 31, 2008 and the general ledger was adjusted accordingly.

### Recommendation:

We recommended the Ministry implement a policy to reconcile the accounts payable subsidiary ledger to the general ledger on a regular basis. This reconciliation will ensure the general ledger reflects the correct balance.

### Corrective Action Taken:

During the current period, the Ministry implemented a policy to reconcile the accounts payable subsidiary to the general ledger on a monthly basis. As of June 30, 2009, the accounts payable subsidiary ledger had been reconciled to the general ledger.

## **2008-10 Prepaid Insurance**

### Finding:

In the prior year, we noted that the prepaid insurance schedule had not been reconciled to the general ledger during the year. It was also noted that several of the flood insurance policies were paid more than once. As a result, the prepaid insurance and insurance expense accounts were incorrect at December 31, 2008. The necessary adjusting entries were recorded to adjust the balances to actual at December 31, 2008.

### Recommendation:

We recommended the Ministry implement a policy to reconcile the prepaid insurance general ledger account to the prepaid insurance schedule on a regular basis. This would ensure the prepaid insurance balance and insurance expense accounts reflect the correct balance. This reconciliation would also help management identify any possible duplicate payments.

### Corrective Action Taken:

During the current period, the Ministry implemented a policy to reconcile the prepaid insurance general ledger account to the prepaid insurance schedule on a regular basis. As of June 30, 2009, the prepaid insurance general ledger account had been reconciled to the prepaid insurance schedule.

## **2008-11 Journal Entries**

### Finding:

During the prior year, it was noted that during the cash reconciliation process that numerous journal entries were posted to various income and expense suspense accounts. When the entries were posted, the detailed transactions were grossed up for each general ledger account. Therefore, no audit trail exists which allows management to see each transaction posting to the general ledger. This limits the ability to determine if the individual transactions are properly classified.

As a result of this finding in the prior year, the Ministry has now implemented a policy to record transactions in as much detail as possible to leave the proper audit trail. The December 31, 2008 audited financial statements were issued subsequent to June 30, 2009. Therefore, the Ministry continued to post journal entries to various income and expense suspense accounts during the current period.

### Recommendation:

We recommended and continue to recommend that all transactions be recorded in as much detail as possible. This will leave an audit trail and help ensure that proper income and expense classification occurs.

## **2008-12 Investment Reconciliations**

### Finding:

During the prior year, it was noted that the monthly AG Edwards investment statements were not being reconciled. As a result, several stock donations received during the year were not recorded.

Recommendation:

We recommended the investment statements be reconciled on a monthly basis as the statements are received. This will ensure that all stock donations are recorded in a timely manner. In addition, the monthly reports given to the Board will accurately reflect such donations.

Corrective Action Taken:

During the current period, the Ministry began reconciling the AG Edwards investment statements on a regular basis. As of June 30, 2009, the investment account had been reconciled.

**DESIRE STREET MINISTRIES, INC.**

**MANAGEMENT LETTER**

**JUNE 30, 2009**

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April 21, 2010

To the Board of Directors  
Desire Street Ministries, Inc.  
New Orleans, Louisiana

In planning and performing our audit of the financial statements of Desire Street Ministries, Inc. for the six months ended June 30, 2009, we considered the Ministry's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, we do not express an opinion on the effectiveness of the Ministry's internal control.

However, during our audit, we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Ministry's internal control in our report dated April 21, 2010. This letter does not affect our report dated April 21, 2010, on the financial statements of Desire Street Ministries, Inc.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Ministry personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

Contract Labor

During our current period reconciliation of the general ledger to the quarterly payroll reports, we noted that contract labor payments had been included in the regular salaries accounts. Therefore, the amounts were reported as salaries on the general ledger and not reported as salaries on the quarterly payroll reports. This resulted in a reconciling item when comparing the salary expenses in the general ledger to the salaries reported on the quarterly payroll reports. We recommend the Ministry record all contract labor in a separate contract labor general ledger account to distinguish between salaries reported on Form 941 and labor to be reported on Form 1099.

The following is a summary of prior year matters:

#### In-Kind Donations

In the prior year, it was noted that the Ministry did not properly record the value of in-kind donations received in the general ledger. The appropriate adjusting entries were made to record such donations. During the current period, we again noted that the Ministry did not properly record the value of in-kind donations received in the general ledger. As a result, adjusting entries were required to correctly reflect the value of such in-kind donations in the June 30, 2009 financial statements. We recommended and continue to recommend the Ministry implement a policy to track the receipt of all in-kind donations and ensure the donations are properly recorded in the general ledger.

#### Contribution Cutoff

During the prior year, it was noted that numerous 2008 contributions were both recorded to the general ledger and deposited in 2009. This occurred due to the large amount of gifts received just before year-end, and the fact that the Ministry was closed due to the holidays. As a result, an adjusting entry was required to correctly record the donations in the prior year.

During the current period, we again noted instances where contributions were not recorded in the correct accounting period. The net effect of these instances was below our materiality threshold so no adjusting entry was recorded. We recommended and continue to recommend the implementation of a policy which will ensure that all checks received are recorded in the appropriate accounting period.

#### Accrued Payroll

During the prior year, it was noted that the prior year accrued payroll had not been reversed in the general ledger. We recommend the Ministry review the cutoff of payroll to ensure the proper reversal of the prior period accrual and ensure the appropriate current period accrual is recorded.

During the current period, we noted that accrued payroll was properly recorded as of June 30, 2009.

#### Invoice Approval

While testing cash disbursements in the prior year, we noted that several of the invoices selected had no department head signature authorizing the payment. It was noted that the check was signed by an authorized signor on the account.

In the current period, we noted an instance of an invoice that was not approved by the department head. We recommended and continue to recommend the implementation of a policy whereby all invoices are signed off as approved by the appropriate department head prior to the check being prepared.

#### Classification of Revenue and Expenses

During our prior year audit procedures, it was noted that numerous income and expense items were not recorded in the proper general ledger account. As a result, certain income and expense accounts did not reflect the proper balance at year-end. The necessary adjusting entries were made to reclassify these identified items to the proper general ledger account. We recommended the implementation of a policy to ensure that all income and expense items are properly recorded in the appropriate general ledger account. During the current period, the Ministry made a concerted effort to ensure all income and expense items were properly recorded in the appropriate general ledger account.

### Journal Entries

During the prior year, numerous journal entries were posted to the general ledger subsequent to our receipt of the trial balance. As a result, several journal entries were duplicated during the audit procedures in an effort to reconcile the various general ledger accounts. The necessary adjustments were made to adjust the balances to actual at December 31, 2008. We recommended that any journal entries which are necessary subsequent to our receipt of the trial balance be recorded as audit adjusting entries to ensure that none of the entries are duplicated.

During the current period, the Ministry did not post any journal entries subsequent to our receipt of the trial balance.

### Growing Desire Program

During the prior year testing of the Growing Desire grant, it was noted that the first of the two required semi-annual progress reports was filed eight days after the deadline set within the grant agreement. The second progress report was filed in a timely manner. We also noted that checks written for grant expenditures only included one authorized signor instead of two, which is required by the grant. The Ministry's procedures only require one signature on all checks written. We recommended all progress reports be filed in accordance with grant requirements. We further recommended the Ministry implement a policy to require two signatures on all expenses related to the Growing Desire grant.

During the current period, the semi-annual progress report was filed in a timely manner. It was noted during the current period that checks written for grant expenditures continued to only include one signature instead of two, which is required by the grant. Due to the limited staffing and the closing of the Academy, it is a challenge to obtain two signatures. We recommend and continue to recommend the Ministry implement a policy to require two signatures on all Growing Desire grant expenses. If this is not possible due to staff constraints, The Ministry may consider discussing this with the Heifer Foundation to see if they can waive the two signature requirement.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

*Hannis T. Bourgeois, LLP*