DESIRE STREET MINISTRIES

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

DESIRE STREET MINISTRIES

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BROOKS, McGINNIS
& COMPANY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2017 and 2016, 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, 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.

Brooks, McGinnis & Company, LLC

Atlanta, Georgia
December 6, 2017

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DESIRE STREET MINISTRIES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash and cash equivalents	$ 1,507,044	$ 2,425,885
Government grant reimbursements receivable	595,752	1,307,162
Contributions and pledges receivable, net	645,743	183,059
Note receivable, net	642,359	834,318
Other receivables	75,995	112,963
Prepaid expenses and other assets	126,338	113,215
Donated assets available for sale	7,000	7,000
Cash restricted for long-term purposes	430,000	175,000
Property and equipment, net	3,799,019	3,716,512
Total assets	$ 7,829,250	$ 8,875,114
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	$ 69,060	$ 213,606
Construction payable	-	949,718
Accrued liabilities	127,070	373,511
Deferred revenue	32,969	5,000
Debt	500,000	500,000
Total liabilities	729,099	2,041,835
Commitments and contingencies		
Net assets:		
Unrestricted net assets	6,466,249	6,626,635
Temporarily restricted net assets	633,902	206,644
Total net assets	7,100,151	6,833,279
Total liabilities and net assets	$ 7,829,250	$ 8,875,114

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

DESIRE STREET MINISTRIES
STATEMENT S OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Changes in unrestricted net assets:		
Revenues and gains:		
Contributions	$ 1,025,722	$ 1,132,960
Grant and contract revenue	426,653	7,979,044
Special event revenue,		
net of $154,676 and $162,542 in direct expenses	206,507	182,677
Rent revenue	128,152	11,700
Interest income	49,362	64,443
Realized gain (loss) on contributed stock	(537)	19
Other income	28,831	146,863
Total unrestricted revenues and gains	1,864,690	9,517,706
Net assets released from restrictions	428,738	390,269
Total unrestricted revenues, gains and support	2,293,428	9,907,975
Expenses:		
Program		
Coach and Care	868,390	651,304
Invest and Revitalize - New Orleans	709,892	784,510
Educate and Engage	211,885	204,991
Total program expense	1,790,167	1,640,805
General and Administrative	329,500	207,880
Fundraising	334,147	244,451
Total expenses	2,453,814	2,093,136
Increase (decrease) in unrestricted net assets		
before non-operating expenses	(160,386)	7,814,839
Impairment of land and building	-	(6,012,560)
Increase (decrease) in unrestricted net assets	(160,386)	1,802,279
Changes in temporarily restricted net assets:		
Contributions	855,996	370,433
Net assets released from restrictions	(428,738)	(390,269)
Increase (decrease) in temporarily restricted net assets	427,258	(19,836)
Increase in net assets	266,872	1,782,443
Net assets, beginning of year	6,833,279	5,050,836
Net assets, end of year	$ 7,100,151	$ 6,833,279

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

	Coach and Care	Invest and Revitalize - New Orleans	Educate and Engage	Total Programs	General and Administrative	Fundraising	Total Expenses
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	412,911	129,920	177,061	719,892	159,396	179,143	1,058,431
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	$ 868,390	$ 709,892	$ 211,885	$ 1,790,167	$ 329,500	$ 334,147	$ 2,453,814

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

DESIRE STREET MINISTRIES
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Coach and Care	Invest and Revitalize - New Orleans	Educate and Engage	Total Programs	General and Administrative	Fundraising	Total Expenses
Salaries and wages	$ 252,214	$ 117,684	$ 134,244	$ 504,142	$ 109,901	$ 116,616	$ 730,659
Benefits and payroll taxes	54,480	25,420	28,998	108,898	34,530	25,190	168,618
Total personnel	306,694	143,104	163,242	613,040	144,431	141,806	899,277
Strategic Partner direct grants	169,375	138,282	-	307,657	-	-	307,657
Travel, meals and accommodations	106,025	9,671	7,287	122,983	11,021	7,602	141,606
Professional fees	-	1,927	-	1,927	17,200	5,481	24,608
Project management	-	30,555	-	30,555	-	-	30,555
Office and administrative	6,030	-	-	6,030	11,522	10,248	27,800
Conferences and training	11,694	2,063	2,353	16,110	1,927	7,437	25,474
Postage and printing	860	336	11,512	12,708	903	10,102	23,713
Licenses, permits and registrations	-	-	-	-	157	3,461	3,618
Telephone and technology	13,420	3,404	3,883	20,707	3,179	9,612	33,498
Equipment lease	-	-	6,642	6,642	1,328	886	8,856
Rent and utilities	16,867	8,767	-	25,634	3,117	1,662	30,413
Repairs and maintenance	9,379	15,663	-	25,042	1,733	924	27,699
Depreciation	5,006	9,064	2,665	16,735	2,181	6,664	25,580
Marketing and public relations	-	-	-	-	-	33,581	33,581
Raising Awareness Forums	5,522	-	7,177	12,699	-	4,785	17,484
Insurance	432	10,529	230	11,191	9,181	200	20,572
Grant close-out adjustments	-	74,145	-	74,145	-	-	74,145
Reserve for grant close-out adjustments	-	337,000	-	337,000	-	-	337,000
Total expenses	$ 651,304	$ 784,510	$ 204,991	$ 1,640,805	$ 207,880	$ 244,451	$ 2,093,136

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

DESIRE STREET MINISTRIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Increase in net assets	$ 266,872	$ 1,782,443
Adjustments to reconcile increase in net assets to net cash provided by operations:		
Depreciation	178,148	25,580
Net realized gain (loss) on contributed assets	5,161	(19)
Impairment of land and building	-	6,012,560
Contributed stock	(85,926)	(50,560)
Provision for bad debt	136,351	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Government grant reimbursements receivable	711,410	(1,185,208)
Contributions and pledges receivable	(462,684)	120,419
Other receivables	(19,383)	(106,555)
Prepaid expenses and other assets	(21,248)	(72,965)
Increase (decrease) in:		
Accounts payable	(144,546)	203,042
Accrued liabilities	(246,441)	342,017
Deferred revenue	27,969	(22,500)
Total adjustments	78,811	5,265,811
Net cash provided by operating activities	345,683	7,048,254
Cash flows from investing activities:		
Contributed stock	88,890	50,579
Reinvestment in certificates of deposit	-	(2,741)
Maturities of certificates of deposit	-	255,266
Principal payments on note receivable	111,959	115,699
Construction in progress	(189,535)	(7,757,057)
Acquisition of other property and equipment	(71,120)	(140,027)
Cash restricted for long-term purposes	(255,000)	(25,000)
Net cash used in investing activities	(314,806)	(7,503,281)
Cash flows from financing activities:		
Advance on note payable	-	500,000
Construction payable	(949,718)	844,407
Net cash provided by (used in) financing activities	(949,718)	1,344,407
Net increase (decrease) in cash and cash equivalents	(918,841)	889,380
Cash and cash equivalents, beginning of year	2,425,885	1,536,505
Cash and cash equivalents, end of year	$ 1,507,044	$ 2,425,885

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

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.

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 three categories established according to their nature and purposes. The assets, liabilities and net assets are reported in three categories as follows:

- Unrestricted net assets are resources that are neither permanently nor temporarily restricted by donor-imposed stipulations. The only limits on unrestricted net assets are those resulting from the nature of the Ministry and its purposes.
- Temporarily restricted net assets are resources whose use by the Ministry is limited by donor-imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Ministry.
- Permanently restricted net assets are those whose use by the Ministry is limited by donor-imposed stipulations requiring that the corpus be maintained in perpetuity. The Ministry does not currently have any permanently restricted net assets.

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, temporarily restricted net assets are reclassified to unrestricted net assets and presented in the accompanying statements of activities as net assets released from restrictions. The Ministry records gifts of land, buildings, and equipment as unrestricted support 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.

1. Nature of Organization and Significant Accounting Policies – Continued

Revenue Recognition – Continued

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 2017 and 2016.

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, 2017 and 2016, the estimated value of these donated materials and equipment was $15,543 and $64,321, respectively and is reflected in these financial statements as unrestricted contributions 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, 2017 and 2016, uninsured balances totaled $1,247,955 and $1,944,373, respectively.

The Ministry's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, 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.

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.

1. Nature of Organization and Significant Accounting Policies – Continued

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 unrestricted net assets 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

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. The fiscal 2016 write-down of the Ministry's construction work in progress – FEMA rebuilding is further described in Note 7. There were no asset impairments recognized during fiscal 2017.

1. Nature of Organization and Significant Accounting Policies – Continued

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 based on estimated time spent on each function and other substantiated allocation methods.

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, 2017 and 2016, 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. 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.

Reclassifications

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

2. 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.

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, 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, 2017, the Ministry recognized a total of $426,653 against the total grant awards and had cumulatively received a total of $ 9.9 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, 2017 are fully collectible and will be collected during fiscal 2018.

2. Government Grant Reimbursements Receivable – Continued

At June 30, the following FEMA project receivables were outstanding:

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

2016

Project Worksheet	Description		Amount
PW 19243	Desire Street Ministries Community Center	$	996,851
PW 19422	Desire Street Ministries Community Center - Contents		271,004
PW 19967	Temporary Facilities - Baton Rouge		28,947
PW 19689	Temporary Facilities - Florida		10,360
	Total government grant reimbursements receivable	$	1,307,162

3. Contributions and Pledges Receivable , net

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

		2017		2016
Pledges due within one year	$	268,486	$	135,000
Pledges due in two years		194,986		50,001
Pledges due in three years		144,986		-
Pledges due in four years		50,000		-
Gross contributions and pledges receivable		658,458		185,001
Present value discount (1% effective rate)		(12,715)		(1,942)
Pledges and contributions receivable, net	$	645,743	$	183,059

Management believes all pledges and contributions receivable at June 30, 2017 are fully collectible. Therefore, no allowance for doubtful accounts has been established for these amounts.

4. Conditional Promises to Give

During fiscal 2016, the Ministry received a pledge for $250,000 toward the New Orleans rebuilding expenditures that would not be reimbursed as part of the Ministry's FEMA disaster grant described in Note 2. The pledge was contingent upon the Ministry's receiving one-to-one matching support for the project, and it is payable through fiscal 2019 as matching requirements are met. Since these amounts represent conditional promises to give, they are not recorded as contribution revenue until the donor conditions are met. At June 30, 2016, the Ministry had a conditional promise to give of $100,000 as only a portion of the condition had been met. During fiscal 2017, the remaining condition was met, and there were no conditional promises to give remaining at June 30, 2017.

5. Note Receivable, Net

In 2012, Desire Street Ministries sold a building it owned in Baton Rouge, Louisiana. The building had been purchased in 2006 as a temporary home for Desire Street Academy which subsequently closed in 2009.

In connection with the sale of this property and the closing of the Academy, the Ministry had entered into the following note as of June 30:

	2017	2016
Note from a Charter School dated March 2012 with an original balance of $1,272,500 at a rate of 6%; due in monthly installments of $14,127 beginning May 2012; three year note based on ten year amortization schedule with a maturity date of April 2015; extended to mature in December 2018 with a prospective rate increase to 6.25%; collaterized by certain real estate in Baton Rouge, LA.	$ 724,109	$ 836,068
Less: Allowance for uncollectible account	(81,750)	(1,750)
	$ 642,359	$ 834,318

In August 2017, the note receivable went into default as the Charter School was no longer a viable entity. The note has been placed on a non-accrual status and conversations are underway with the borrower to determine how their debt can be satisfied. The note is secured by a 23-acre tract of land with buildings located in the East Baton Rouge Parish of New Orleans, Louisiana. Management believes that the underlying collateral is sufficient to cover the outstanding note receivable balance, but has established an allowance for doubtful accounts for estimated legal fees and other costs that may result from the collection process.

6. Property and Equipment, Net

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

	2017	2016
Buildings and improvements	$ 3,575,224	$ 233,560
Land and improvements	309,200	309,201
Equipment	58,726	37,274
Furniture and fixtures	8,943	3,753
Playground	74,746	74,746
Vehicles	31,052	31,052
Computers and software	83,236	81,200
	4,141,127	770,786
Less accumulated depreciation	(342,108)	(163,960)
	3,799,019	606,826
Construction work in progress - FEMA rebuilding	-	3,109,686
Property and equipment, net	$ 3,799,019	$ 3,716,512

Depreciation expense for the years ended June 30, 2017 and 2016 was $178,148 and $25,580, respectively.

Amounts in construction work in progress – FEMA rebuilding at June 30, 2016 relate to the demolition, planning and construction of the multi-building complex in New Orleans, Louisiana, as further described in Note 2. On October 28, 2016, the Ministry received the Certificate of Occupancy for the new buildings in New Orleans, Louisiana as further described in Notes 2 and 7, and the buildings were placed into service on November 1, 2016.

7. Impairment of Land and Building

For the year ended June 30, 2016, the Ministry reduced its construction work in process – FEMA rebuilding, included in property and equipment net, by $6,012,560. In accordance with the Ministry's mission, the purpose of the building project (as further described in Notes 2 and 6) was to provide a facility offering much-needed services to the under-resourced neighborhood of the Upper Ninth Ward in New Orleans. Since this under-resourced community continues its struggle to emerge from the Hurricane Katrina disaster, and due to expected additional construction costs incurred including FEMA project management and supervision, management determined that the $9,122,246 carrying value of the constructions work in progress – FEMA rebuilding was not recoverable and was in fact impaired, and reduced the carrying value of the asset to its estimated fair value of $3,109,686 at June 30, 2016. Management's assessment of fair value was based on Level 3 inputs in accordance with ASC 820, and takes into account the appraisal of the property done by an experienced, independent third-party appraisal company, using the sales comparison approach and the cost approach. The loss is reflected in the statement of activities as of June 30, 2016 as impairment of land and building.

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.

In May 2016, the Ministry obtained a bank line-of-credit for $2,000,000 which bears interest at a rate of prime plus .5% with a maturity date of May 5, 2018. As of June 30, 2017 and 2016, there had been no borrowings on this line-of-credit.

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, 2017 and 2016 was $51,775 and $19,992, respectively.

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

Year ended June 30,		
2018	$	65,914
2019		24,897
	$	90,811

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of cash contributions and pledges receivable the Ministry has received subject to donor imposed restrictions consisting of the following at June 30:

		2017		2016
Program restrictions:				
Strategic Partners	$	50,000	$	22,700
Thriving Index		8,944		8,944
Building project		430,000		175,000
Total program purpose restrictions		488,944		206,644
Internships and staff		124,958		-
Multi-year contribution and other time restricted		20,000		-
Total temporarily restricted net assets	$	633,902	$	206,644

11. Net Assets Released from 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:

	2017	2016
Program restriction accomplished:		
Strategic Partner	$ 70,870	$ 55,601
Partner retreats	4,500	700
Building project	303,326	283,968
Total program restriction releases	378,696	340,269
Other releases of restrictions:		
Internship and staff	50,042	-
Multi-year contribution and other time restricted	-	50,000
Total net assets released from restrictions	$ 428,738	$ 390,269

12. 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, as reflected in the statement of functional expenses. Based on reconciliations with GOHSEP in fiscal 2017, the reserve was reduced to $95,287 at June 30, 2017.

For the years ended June 30, 2017 and 2016, the Organization received approximately 15% and 81%, respectively, of its current year revenue through federal government funding. Receivables arise from reimbursements owed through these government contracts as further described in Note 2. The Organization's ability to collect amounts due is affected by the outside agencies' acceptance of reimbursable expenses and performance-based outcomes which meet contract requirements.

During August 2015, the Ministry entered into an agreement with a general contractor in the amount of $8 million for construction services related to the multi-building project under the FEMA disaster grant as further described in Note 2. As of June 30, 2017, the entire contract amount less $477,381 in change orders had been paid.

13. 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.

14. Subsequent Events

Subsequent events have been evaluated by management through December 6, 2017, which is the date the financial statements were available to be issued, and there were no subsequent events other than that described in Note 5.