

DESIRE STREET MINISTRIES

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019 AND 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 19, 2019

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DESIRE STREET MINISTRIES
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 568,978	\$ 1,871,564
Certificates of deposit	882,613	1,002,802
Investments	1,088,050	1,413
Government grant reimbursements receivable	-	71,451
Contributions and pledges receivable, net	168,024	485,095
Other receivables	25,881	114,941
Prepaid expenses and other assets	39,071	61,868
Real property held for sale	300,000	652,283
Property and equipment, net	4,708	3,635,785
Total assets	\$ 3,077,325	\$ 7,897,202
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 35,903	\$ 130,975
Accrued liabilities	48,685	33,406
Deferred revenue	119,000	130,056
Debt	-	500,000
Total liabilities	203,588	794,437
Commitments and contingencies		
Net assets:		
Without donor restrictions:		
Undesignated	1,815,133	2,511,620
Board designated - 6 month operating reserve	776,782	917,378
Investment in property and equipment	4,708	3,135,785
	2,596,623	6,564,783
With donor restrictions		
Purpose restrictions	180,114	193,982
Time restrictions	97,000	344,000
	277,114	537,982
Total net assets	2,873,737	7,102,765
Total liabilities and net assets	\$ 3,077,325	\$ 7,897,202

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

DESIRE STREET MINISTRIES
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	2019 Total	Without Donor Restrictions	With Donor Restrictions	2018 Total
Support and Revenue:						
Contributions	\$ 1,275,328	\$ 229,457	\$ 1,504,785	\$ 963,522	\$ 409,060	\$ 1,372,582
Grant and contract revenue	232	-	232	19,844	-	19,844
Special event income	449,987	-	449,987	498,633	-	498,633
Less special event expenses	<u>(214,753)</u>	<u>-</u>	<u>(214,753)</u>	<u>(167,767)</u>	<u>-</u>	<u>(167,767)</u>
Net Special event income	235,234	-	235,234	330,866	-	330,866
Investment income (loss)	54,782	-	54,782	22,715	-	22,715
Rental income	148,597	-	148,597	143,463	-	143,463
Other income	<u>48,763</u>	<u>-</u>	<u>48,763</u>	<u>119,021</u>	<u>-</u>	<u>119,021</u>
Total Support and Revenue	<u>1,762,936</u>	<u>229,457</u>	<u>1,992,393</u>	<u>1,599,431</u>	<u>409,060</u>	<u>2,008,491</u>
Reclassifications:						
Net assets released from restrictions	<u>490,325</u>	<u>(490,325)</u>	<u>-</u>	<u>504,980</u>	<u>(504,980)</u>	<u>-</u>
Expenses:						
Program services						
Coach and care	934,583	-	934,583	763,415	-	763,415
Invest and revitalize	502,593	-	502,593	532,551	-	532,551
Educate and engage	<u>339,421</u>	<u>-</u>	<u>339,421</u>	<u>241,240</u>	<u>-</u>	<u>241,240</u>
	1,776,597	-	1,776,597	1,537,206	-	1,537,206
Supporting activities:						
General and administrative	270,726	-	270,726	287,760	-	287,760
Fundraising	<u>188,999</u>	<u>-</u>	<u>188,999</u>	<u>180,911</u>	<u>-</u>	<u>180,911</u>
	459,725	-	459,725	468,671	-	468,671
Total Expenses	<u>2,236,322</u>	<u>-</u>	<u>2,236,322</u>	<u>2,005,877</u>	<u>-</u>	<u>2,005,877</u>
Change in net assets from operating activities	16,939	(260,868)	(243,929)	98,534	(95,920)	2,614
Non-operating activities:						
Write down of real property held for sale	(387,794)	-	(387,794)	-	-	-
Grant of property, equipment, and other assets	<u>(3,597,305)</u>	<u>-</u>	<u>(3,597,305)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total change in net assets	(3,968,160)	(260,868)	(4,229,028)	98,534	(95,920)	2,614
Net assets, beginning of year	<u>6,564,783</u>	<u>537,982</u>	<u>7,102,765</u>	<u>6,466,249</u>	<u>633,902</u>	<u>7,100,151</u>
Net assets, end of year	<u>\$ 2,596,623</u>	<u>\$ 277,114</u>	<u>\$ 2,873,737</u>	<u>\$ 6,564,783</u>	<u>\$ 537,982</u>	<u>\$ 7,102,765</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, 2019

	Program Activities				Supporting Activities			Total Expenses
	Coach and Care	Invest and Revitalize	Educate and Engage	Total Program Expenses	General and Administrative	Fundraising	Total Supporting Activities	
Payroll and personnel	\$ 600,649	\$ -	\$ 248,839	\$ 849,488	\$ 196,122	\$ 119,213	\$ 315,335	\$ 1,164,823
Grants and benevolences	61,202	3,597,305	75	3,658,582	-	-	-	3,658,582
Travel	141,195	1,304	42,587	185,086	8,172	2,983	11,155	196,241
Events	3,579	-	35,792	39,371	-	175,382	175,382	214,753
Office	63,587	1,371	16,546	81,504	27,165	44,865	72,030	153,534
Insurance	14,105	70,865	5,846	90,816	4,443	2,801	7,244	98,060
Professional fees	20,672	-	8,568	29,240	6,511	12,016	18,527	47,767
Depreciation	-	159,744	-	159,744	1,505	1,194	2,699	162,443
Occupancy	29,855	99,889	12,372	142,116	18,212	5,927	24,139	166,255
Bad debt	-	169,356	-	169,356	2,569	-	2,569	171,925
Miscellaneous	3,318	64	4,588	7,970	6,027	-	6,027	13,997
Total expenses by function	938,162	4,099,898	375,213	5,413,273	270,726	364,381	635,107	6,048,380
Less expenses included with revenues or non-operating expense activity on the statement of activities:								
Grant of fixed assets	-	(3,597,305)	-	(3,597,305)	-	-	-	(3,597,305)
Direct event expenses	(3,579)	-	(35,792)	(39,371)	-	(175,382)	(175,382)	(214,753)
Total expenses included in the expense section on the statement of activities	\$ 934,583	\$ 502,593	\$ 339,421	\$ 1,776,597	\$ 270,726	\$ 188,999	\$ 459,725	\$ 2,236,322
	42%	22%	15%	79%	12%	9%	21%	100%

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

	Program Activities				Supporting Activities			Total Expenses
	Coach and Care	Invest and Revitalize	Educate and Engage	Total Program Expenses	General and Administrative	Fundraising	Total Supporting Activities	
Payroll and personnel	\$ 413,095	\$ 69,145	\$ 199,729	\$ 681,969	\$ 173,607	\$ 96,603	\$ 270,210	\$ 952,179
Grants and benevolences	80,085	53,165	-	133,250	-	-	-	133,250
Travel	180,432	2,612	15,649	198,693	15,633	4,361	19,994	218,687
Events	3,355	-	28,520	31,875	-	135,892	135,892	167,767
Office	40,667	61,033	12,646	114,346	25,595	30,674	56,269	170,615
Insurance	8,275	71,169	4,466	83,910	11,183	2,160	13,343	97,253
Professional fees	-	-	-	-	28,700	5,787	34,487	34,487
Depreciation	8,531	151,933	431	160,895	7,072	9,310	16,382	177,277
Occupancy	32,226	62,492	7,827	102,545	25,697	31,064	56,761	159,306
Bad debt	-	61,002	-	61,002	-	-	-	61,002
Miscellaneous	104	-	492	596	273	952	1,225	1,821
Total expenses by function	766,770	532,551	269,760	1,569,081	287,760	316,803	604,563	2,173,644
Less expenses included with revenues or non-operating expense activity on the statement of activities:								
Direct event expenses	(3,355)	-	(28,520)	(31,875)	-	(135,892)	(135,892)	(167,767)
Total expenses included in the expense section on the statement of activities	\$ 763,415	\$ 532,551	\$ 241,240	\$ 1,537,206	\$ 287,760	\$ 180,911	\$ 468,671	\$ 2,005,877
	35%	25%	12%	72%	13%	15%	28%	100%

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

DESIRE STREET MINISTRIES
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Change in net assets	\$ (4,229,028)	\$ 2,614
Adjustments to reconcile increase in net assets to net cash provided by operations:		
Depreciation	162,443	177,277
Unrealized and realized gains on investments	(2,167)	(7,121)
Stocks in transit	(27,414)	-
Gain on sale of property held for sale	(7,000)	-
Provision for bad debt (net recoveries)	171,925	(34,285)
Write down of property held for sale	387,794	-
Grant of property, equipment and other assets	3,597,305	-
Changes in operating assets and liabilities:		
Government grant reimbursements receivable	61,635	524,301
Contributions and pledges receivable, net	167,071	160,648
Other receivables	(51,420)	(99,948)
Prepaid expenses and other assets	22,497	64,470
Accounts payable	(95,072)	61,915
Accrued expenses	15,279	1,623
Deferred revenue	(11,056)	97,087
Net cash provided by activities	<u>162,792</u>	<u>948,581</u>
Cash flows from investing activities:		
Purchases of certificates of deposit	(625,000)	(1,002,802)
Proceeds from liquidation of certificates of deposit	757,234	-
Purchase of investments	(1,159,084)	(1,413)
Proceeds from sales of investments	121,591	-
Reinvested interest	(31,608)	-
Investment in property held for sale	(42,511)	-
Proceeds from sale of property held for sale	14,000	-
Purchases of property and equipment	-	(9,846)
Net cash used in investing activities	<u>(965,378)</u>	<u>(1,014,061)</u>
Cash flows from financing activities:		
Repayment of debt	(500,000)	-
Cash restricted for long-term purposes	-	430,000
Net cash provided by (used in) financing activities	<u>(500,000)</u>	<u>430,000</u>
Net change in cash and cash equivalents	(1,302,586)	364,520
Cash and cash equivalents, beginning of year	<u>1,871,564</u>	<u>1,507,044</u>
Cash and cash equivalents, end of year	<u>\$ 568,978</u>	<u>\$ 1,871,564</u>
Supplemental Disclosures:		
Noncash gifts of securities	<u>\$ 45,235</u>	<u>\$ 83,104</u>

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

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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, 2019 AND 2018

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 *support with donor restrictions* 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, 2019 AND 2018

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 2019 and 2018.

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, 2019 and 2018, the estimated value of these donated materials and equipment was \$25,000 and \$24,542, 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. Special event revenue is reported net of direct, special event expenses.

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, 2019 and 2018, cash balances in excess of the FDIC limit totaled \$149,204 and \$1,126,731, respectively.

In addition, the Ministry maintains certificates of deposit at a single investment firm. The Ministry's certificates of deposit held by the investment firm are insured by the Securities Investor Protection Corporation (SIPC) up to \$500,000 against custodial risk. The certificates, if traded in an open market, are exposed to market risk. As of June 30, 2019 and 2018, balances in excess of the SIPC insured limits totaled \$508,522 and \$502,802, respectively.

The Ministry's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, certificates of deposit, investments, 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, 2019 AND 2018

1. Nature of Organization and Significant Accounting Policies – Continued

Advertising Costs

Advertising costs are expensed as incurred.

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 several 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

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 unless those costs were previously allowed for as part of a periodic valuation.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 as required by GAAP. Those expenses include payroll and personnel, office, occupancy and depreciation. Payroll and personnel related expenses (e.g. benefits, training, etc.) are allocated based on an estimate of time and effort. Office expenses are allocated in part using the staff allocation and in part evaluating the program or supporting activity benefited. Occupancy and depreciation are allocated based upon an estimate of the functions benefited by the assets.

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, 2019 and 2018, 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 is 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.

Subsequent Events

Subsequent events have been evaluated through December 19, 2019, which is the date the financial statements were available to be issued, and there were no significant subsequent events.

DESIRE STREET MINISTRIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

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 downturn. 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.

The following tables present the Ministry's financial assets as of June 30, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of internal board designations or donor restrictions:

	Financial Assets	Not Available Due To		Net Available for General Expenditures
		Internal Board Designation	Donor Imposed Purpose Restrictions	
<u>For the year ending June 30, 2019:</u>				
Cash and cash equivalents	\$ 568,978	\$ -	\$ 180,114	\$ 388,864
Certificates of deposit	882,613	776,782	-	105,831
Investments	1,088,050	-	-	1,088,050
Government grant reimbursements receivable	-	-	-	-
Contributions and pledges receivable, net	168,024	-	-	168,024
Other receivables	25,881	-	-	25,881
	<u>\$ 2,733,546</u>	<u>\$ 776,782</u>	<u>\$ 204,663</u>	<u>\$ 1,776,650</u>
<u>For the year ending June 30, 2018:</u>				
Cash and cash equivalents	\$ 1,871,564	\$ -	\$ -	\$ 1,871,564
Certificates of deposit	1,002,802	917,378	-	85,424
Investments	1,413	-	-	1,413
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.

DESIRE STREET MINISTRIES
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2019 AND 2018

3. Investments

The Ministry classifies its investment assets using a hierarchy of inputs to fair value measurements in accordance with professional standards as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities that the Ministry has the ability to access.

Level 2 – Inputs to the valuation methodology that are derived principally from or corroborated by observable market data:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the assets or liabilities;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable and significant to the overall fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At June 30, 2019, the Ministry's investments consist of money market funds and government securities with a single investment firm and are exchange-traded funds. Accordingly, the Ministry's investments are Level 1 investments. None of the Ministry's investments are considered to be Level 2 or Level 3 investments

The Ministry's investment objectives are the preservation and protection of the Ministry's assets, as well as the maintenance of liquid reserves to meet obligations arising from unanticipated activities by earning an appropriate return on investments.

The market value of investments consists of the following at June 30, 2019 and 2018:

	Fair Value Hierarchy Level	2019	2018
Money market funds	1	\$ 934,727	\$ -
US Treasury Notes	1	125,909	-
Stocks in transit	1	27,414	-
Total investments		\$ 1,088,050	\$ -

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NOTES TO FINANCIAL STATEMENTS
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3. Investments – Continued

Investment income consists of the following for the years ended June 30:

	2019	2018
Interest	\$ 50,276	\$ 13,991
Net realized and unrealized gain	4,506	8,724
	\$ 54,782	\$ 22,715

4. 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, 2019 and 2018, 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, 2019, the Ministry recognized a total of \$232 against the total grant awards and had cumulatively received a total of \$10.44 million in grant awards for the Katrina 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. All outstanding project receivables were received during fiscal year 2019.

DESIRE STREET MINISTRIES
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4. Government Grant Reimbursements Receivable – Continued

As of June 30, 2018, 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

5. Contributions and Pledges Receivable, net

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

	2019	2018
Pledges due within one year	\$ 170,187	\$ 221,250
Pledges due in two years	-	219,949
Pledges due in three years	-	54,000
Gross contributions and pledges receivable	170,187	495,199
Present value discount (1.25% and 1% effective rate)	(2,163)	(10,104)
Pledges and contributions receivable, net	\$ 168,024	\$ 485,095

Management believes all pledges and contributions receivable at June 30, 2019 are fully collectible. Therefore, no allowance for doubtful accounts has been established for these amounts.

6. Real Property Held for Sale

In 2006, the Ministry purchased a building and land in Baton Rouge, Louisiana as a temporary home for Desire Street 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 was collateralized by the property. During fiscal 2018, 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 Louisiana used to collateralize the note. The Dation effectively satisfied the debt to the Ministry via the borrower's transferring the collateralized property to the Ministry in lieu of cash payment.

DESIRE STREET MINISTRIES
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6. Real Property Held for Sale – Continued

Management believed 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.

Real property held for sale totaling \$300,000 and \$652,283 as of June 30, 2019 and 2018, respectively, includes the 23-acre tract of land and buildings located in the East Baton Rouge Parish of New Orleans, Louisiana which was received in lieu of payment on an outstanding note receivable in the same amount. The property has been listed and is being actively marketed. During the year ended June 30, 2019, management considered the valuation of this property through a process of soliciting a new listing broker. As a part that process, it was determined that the property was impaired and should be properly valued at \$300,000. A correspondi ng loss of \$387,794 was recorded in the fiscal year 2019 statement of activities.

Also included in the balance for the year ended June 30, 2018 was a \$7,000 single undeveloped land lot located in Pine Coast, Florida. During fiscal year 2019, 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:

	2019	2018
Buildings and improvements	\$ 36,694	\$ 3,575,224
Land and improvements	-	317,400
Equipment	-	58,726
Furniture and fixtures	5,190	8,943
Playground	-	74,746
Vehicles	31,052	31,052
Computers and software	63,360	86,550
	136,296	4,152,641
Less accumulated depreciation	(131,588)	(516,856)
Property and equipment, net	\$ 4,708	\$ 3,635,785

Depreciation expense for the years ended June 30, 2019 and 2018 was \$162,443 and \$177,277, respectively.

As further described in Note 15, certain buildings and improvements, land and improvements, equipment, furniture and fixtures, playground equipment, and computers and software were granted to another non-profit organization during the year ended June 30, 2019.

DESIRE STREET MINISTRIES
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8. Debt

On June 23, 2016, the Ministry obtained a \$500,000 note payable from a private individual that was due June 23, 2026, and bore interest at 2 percent. Interest only payments were payable annually each June. During fiscal 2019, 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, 2019 and 2018 was \$64,316 and \$65,693, respectively.

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

<u>Year ending June 30,</u>	
2020	\$ 61,970
2021	22,643
2022	2,668
2023	<u>2,016</u>
	<u>\$ 89,297</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 \$776,782 and \$917,378, respectively, for the years ended June 30, 2019 and 2018.

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:

	2019	2018
Program restrictions:		
Strategic Partners	\$ 44,542	\$ 85,140
Community Engagement	29,523	50,000
Thriving Index	5,119	8,944
General ministry program	75,581	-
Total program purpose restrictions	154,765	144,084
Staffing	25,349	49,898
Multi-year contributions and other time restricted	97,000	344,000
Total net assets with donor restrictions	\$ 277,114	\$ 537,982

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:

	2019	2018
Program restriction accomplished:		
Strategic Partner	\$ 47,198	\$ 245,130
Community Engagement	20,477	20,000
Partner retreats	70,357	1,725
Thriving Index	3,825	-
General ministry program	76,919	-
Total program restriction releases	218,776	266,855
Other releases of restrictions:		
Staffing	24,549	75,060
Multi-year contributions and other time restricted	247,000	163,065
Total net assets released from restrictions	\$ 490,325	\$ 504,980

DESIRE STREET MINISTRIES
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13. Commitments and Contingencies

As described in Note 4, the Ministry has received 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.

14. Retirement Plan

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. For the year ended June 30, 2019, the Ministry made matching contributions totaling \$25,039. There were no discretionary matching contributions for the year ended June 30, 2018.

15. Grant of Property, Equipment, and Other Assets

During the year ended June 30, 2019, the Ministry granted property, equipment and other assets located in New Orleans, Louisiana to other non-profit organizations in communities where the Ministry formerly operated. The grant of property, equipment and other assets net of accumulated depreciation totaling \$3,597,305 at June 30, 2019 is presented as a non-operating activity in the accompanying statements of activities. The assets granted were as follows at June 30, 2019:

Buildings and improvements, net	\$ 3,101,002
Land and improvements	317,401
Equipment, playground, and computers, net	51,172
Forgiveness of receivables and other donations	<u>127,730</u>
Grant of Property, Equipment and Other Assets	<u><u>\$ 3,597,305</u></u>

DESIRE STREET MINISTRIES
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16. 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, 2019 is as follows:

Agency Head Name: Daniel C. Wuerffel

Purpose	Amount	
Salary	\$ 134,860	*
Benefits - insurance	27,180	*
Benefits - retirement	2,961	*
Benefits	-	
Car allowance	-	
Vehicle provided by government	-	
Per diem	-	
Reimbursements	-	
Travel	-	
Registration fees	-	
Conference travel	-	
Continuing professional education fees	-	
Housing	-	
Unvouchered expenses	-	
Special meals	-	
Other - vehicle provided by organization	2,743	*

*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.