

**DESIRE STREET MINISTRIES, INC.**

**DECEMBER 31, 2008 AND 2007**

**NEW ORLEANS, LOUISIANA**

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September 28, 2009

Independent Auditor's Report

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

We have audited the accompanying Statements of Financial Position of Desire Street Ministries, Inc. (a nonprofit organization) as of December 31, 2008 and 2007 and the related Statements of Activities and Cash Flows for the years 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 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 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 audits provide 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 December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Respectfully submitted,

*Hannis T. Bourgeois, LLP*

**DESIRE STREET MINISTRIES, INC.**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
<b><u>ASSETS</u></b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 458,694	\$ 1,453,227
Contributions Receivable, Net	-	66,340
Other Receivable	86,943	26,908
Receivable - Employee	-	6,970
Investment Securities	-	512
Prepaid Expenses	36,273	33,070
Total Current Assets	581,910	1,587,027
<b>Property and Equipment, Net</b>	5,124,777	5,258,055
<b>Deposits</b>	6,700	4,681
Total Assets	<u>\$5,713,387</u>	<u>\$6,849,763</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
	<u>2008</u>	<u>2007</u>
<b>Current Liabilities:</b>		
Accounts Payable	\$ 103,523	\$ 164,588
Current Portion of Long-Term Debt	63,316	63,607
Accrued Expenses	85,039	78,546
Total Current Liabilities	251,878	306,741
<b>Long-Term Debt</b>	378,279	447,772
<b>Net Assets:</b>		
Unrestricted	4,940,746	5,959,833
Temporarily Restricted	142,484	135,417
Total Net Assets	5,083,230	6,095,250
Total Liabilities and Net Assets	<u>\$5,713,387</u>	<u>\$6,849,763</u>

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

**DESIRE STREET MINISTRIES, INC.**

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008		
	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>			
Public Support and Fund Raising - Academy	\$ -	\$ 696,601	\$ 696,601
Public Support and Fund Raising - Ministries	2,291,150	444,909	2,736,059
Athletic Proceeds	-	350	350
In-Kind Support	330,327	-	330,327
Interest Income	6,166	-	6,166
Lunch Program	-	75,967	75,967
Rental Income	50,331	-	50,331
Tuition	-	62,974	62,974
	<u>2,677,974</u>	<u>1,280,801</u>	<u>3,958,775</u>
<b>Net Assets Released from Restriction</b>	<u>1,273,734</u>	<u>(1,273,734)</u>	<u>-</u>
Total Support and Revenue and Net Assets Released from Restrictions	3,951,708	7,067	3,958,775
<b>Expenses:</b>			
Program Services - Academy	2,599,755	-	2,599,755
Program Services - Ministries	1,334,949	-	1,334,949
Management and General	570,106	-	570,106
Fund Raising	562,422	-	562,422
Total Expenses	<u>5,067,232</u>	<u>-</u>	<u>5,067,232</u>
<b>Other Income (Expense):</b>			
Other Income	136,269	-	136,269
Realized Gain (Loss) on Sale of Investments	38	-	38
Loss on Disposal of Fixed Assets	(39,870)	-	(39,870)
Total Other Income (Expenses)	<u>96,437</u>	<u>-</u>	<u>96,437</u>
<b>Increase (Decrease) in Net Assets</b>	<u>(1,019,087)</u>	<u>7,067</u>	<u>(1,012,020)</u>
<b>Net Assets at Beginning of Year</b>	<u>5,959,833</u>	<u>135,417</u>	<u>6,095,250</u>
<b>Net Assets at End of Year</b>	<u>\$4,940,746</u>	<u>\$ 142,484</u>	<u>\$5,083,230</u>

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

2007

Unrestricted	Temporarily Restricted	Total
\$ -	\$772,279	\$772,279
2,058,013	303,229	2,361,242
-	28,830	28,830
272,747	-	272,747
66,185	-	66,185
-	79,603	79,603
31,445	-	31,445
-	32,089	32,089
2,428,390	1,216,030	3,644,420
1,389,671	(1,389,671)	-
3,818,061	(173,641)	3,644,420
2,532,061	-	2,532,061
929,011	-	929,011
480,186	-	480,186
548,900	-	548,900
4,490,158	-	4,490,158
30,504	-	30,504
(2,631)	-	(2,631)
(2,910)	-	(2,910)
24,963	-	24,963
(647,134)	(173,641)	(820,775)
6,606,967	309,058	6,916,025
\$5,959,833	\$ 135,417	\$6,095,250

**DESIRE STREET MINISTRIES, INC.**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
<b>Cash Flows from Operating Activities:</b>		
Increase (Decrease) in Net Assets	\$ (1,012,020)	\$ (820,775)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation	284,536	258,298
(Gain) Loss on Disposal of Fixed Assets	39,870	2,910
Donated Vehicles	-	(204,942)
Donated Investments	(38,900)	(9,900)
Net Realized and Unrealized (Gains) Losses on Investments	(38)	2631
Changes in Assets and Liabilities:		
(Increase) Decrease in Contributions Receivable	66,340	11,330
(Increase) Decrease in Employee Receivables	6,970	31,610
(Increase) Decrease in Insurance and Other Receivables	(60,035)	43,551
(Increase) Decrease in Prepaid Expenses	(3,203)	40,146
(Increase) Decrease in Deposits	(2,019)	(727)
Increase (Decrease) in Accounts Payable	(61,065)	(258,366)
Increase (Decrease) in Accrued Expenses	6,493	7,656
Net Cash Used in Operating Activities	(773,071)	(896,578)
<b>Cash Flows from Investing Activities:</b>		
Purchases of Property and Equipment	(309,466)	(575,034)
Proceeds from Sale of Equipment	118,338	550
Proceeds from Sale of Investment Securities	39,450	78,657
Net Cash Used in Investing Activities	(151,678)	(495,827)
<b>Cash Flows from Financing Activities:</b>		
Proceeds from Debt	-	535,158
Repayments of Long-Term Debt	(69,784)	(334,468)
Net Cash Provided by (Used in) Financing Activities	(69,784)	200,690
<b>Net Decrease in Cash and Cash Equivalents</b>	(994,533)	(1,191,715)
<b>Cash and Cash Equivalents - Beginning of Year</b>	1,453,227	2,644,942
<b>Cash and Cash Equivalents - End of Year</b>	\$ 458,694	\$ 1,453,227
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash Payments for Interest	\$ 40,535	\$ 29,785

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

# DESIRE STREET MINISTRIES, INC.

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

### **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. Following Hurricane Katrina in August 2005, the Academy operated as a boarding school in Niceville, FL for the 2005-2006 school year, then relocated to Baton Rouge, Louisiana in the fall of 2006. Beginning fall 2009, classes are not being held on the Baton Rouge campus in order to pursue a charter school for K-5. The Academy is operating on a small scale in the original ministry building in New Orleans to finish its commitment to the remaining New Orleans seniors who were with the Ministry following Katrina.

The Ministry is continuing to 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.

#### 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 December 31, 2008 and 2007.

#### 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 year ended December 31, 2008 and 2007, the value of these services recorded in these financial statements totaled \$42,555 and \$20,000 for 2008 and 2007, respectively.

### 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 year, 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 year ended December 31, 2008 and 2007, 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.

### Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

#### **Note 2 - Contributions Receivable -**

Contributions receivable at December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Receivable in Less Than One Year	\$ -	\$ 67,340
Less: Allowance for Uncollectible Pledges	<u>-</u>	<u>(1,000)</u>
Net Contributions Receivable	<u>\$ -</u>	<u>\$ 66,340</u>

#### **Note 3 - Investment Securities -**

At December 31, 2008 and 2007, investment securities consisting of common stock of publicly traded corporations are carried at approximate fair value of \$-0- and \$512, respectively, which approximates the value of the stock at the time of donation to the Ministry.

#### **Note 4 - Property and Equipment -**

The details of property and equipment as of December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Automobiles	\$ 256,957	\$ 275,362
Building	4,933,007	4,848,398
Furniture, Fixtures and Equipment	<u>352,193</u>	<u>275,835</u>
	5,542,157	5,399,595
Less: Accumulated Depreciation	<u>(1,030,582)</u>	<u>(754,742)</u>
	4,511,575	4,644,853
Land	<u>613,202</u>	<u>613,202</u>
	<u>\$ 5,124,777</u>	<u>\$ 5,258,055</u>

Depreciation expense for the years ended December 31, 2008 and 2007 was \$284,536 and \$258,298, respectively.

**Note 5 - Long-Term Debt -**

	<u>2008</u>	<u>2007</u>
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.	\$ 187,585	\$ 236,379
Wachovia Bank - Original balance of \$275,000 at a rate of 7.25% with 66 monthly payments of \$3,244, the note matures on December 5, 2017.	<u>254,010</u>	<u>275,000</u>
	441,595	511,379
Current Portion of Long-Term Debt	<u>(63,316)</u>	<u>(63,607)</u>
Long-Term Debt	<u>\$ 378,279</u>	<u>\$ 447,772</u>

Maturities of long-term debt are as follows:

<u>Year</u>	<u>Amount</u>
2010	\$ 74,521
2011	80,662
2012	61,775
2013	28,179
Thereafter	<u>133,142</u>
	<u>\$ 378,279</u>

**Note 6 - Operating Leases -**

The Ministry leases certain equipment under non-cancelable operating leases. Total lease expense for the years ended December 31, 2008 and 2007 amounted to \$81,220 and \$82,859, respectively. Future minimum lease payments under leases that have remaining non-cancelable terms in excess of one year at December 31, 2008 are as follows:

<u>Year</u>	<u>Amount</u>
2009	\$ 38,081
2010	44,280
2011	22,001
2012	4,430
2013	<u>2,996</u>
	<u>\$ 111,788</u>

**Note 7 - Restrictions of Net Assets -**

The details of temporarily restricted net assets are as follows:

	<u>2008</u>	<u>2007</u>
Kaluchie Wear	\$ 6,646	\$ 6,646
Summer Activities	-	128,771
Desire Street Academy	1,000	-
Growing Desire Program	9,838	-
Baton Rouge Building Fund	<u>125,000</u>	<u>-</u>
	<u>\$ 142,484</u>	<u>\$ 135,417</u>

**Note 8 - Net Assets Released from Restrictions -**

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

	<u>2008</u>	<u>2007</u>
Medical Clinic	\$ -	\$ 20,766
Staff Support	47,145	87,689
Paige Family Fund	-	5,138
Urban Institute	7,800	138,456
Summer Camp Fees and Other	341,089	85,591
Desire Street Academy	564,440	758,235
Growing Desire Program	30,102	-
New Orleans Building Fund	109,115	84,839
CDC	-	68,519
St Roch Church Fund	172,593	84,540
Disaster Assistance	200	27,068
Athletics	<u>1,250</u>	<u>28,830</u>
	<u>\$ 1,273,734</u>	<u>\$ 1,389,671</u>

**Note 9 - Subsequent Event -**

Subsequent to December 31, 2008, but prior to the issuance of our report, the Ministry decided to cease offering classes on the Baton Rouge campus at the end of the 2008-2009 school year in order to pursue a charter school for K-5 on the Baton Rouge campus. The Academy is operating on a small scale in New Orleans to finish its commitment to the remaining New Orleans seniors who were with the Ministry following Katrina.

**Note 10 - 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>