DESIRE STREET MINISTRIES, INC.

JUNE 30, 2013

ATLANTA, GEORGIA

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Audited Financial Statements:

HTB Hannis T. Bourgeois, LLP
Certified Public Accountants

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Independent Auditor's Report

To the Board of Directors
Desire Street Ministries, Inc.
Atlanta, Georgia

We have audited the accompanying financial statements of Desire Street Ministries, Inc. (a nonprofit organization), which comprise the Statement of Financial Position as of June 30, 2013, and the related Statements of Activities and Cash Flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 organization'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, Inc. as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Desire Street Ministries, Inc.'s 2012 financial statements, and our report dated November 6, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Respectfully submitted,

Hannis T. Bourgeois, LLP

Baton Rouge, Louisiana
November 12, 2013

DESIRE STREET MINISTRIES, INC.

STATEMENT OF FINANCIAL POSITION

AS OF JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR 2012

ASSETS

	2013	2012
Current Assets:		
Cash and Cash Equivalents	$ 1,538,844	$ 547,595
Accounts Receivable	88,249	719,559
Notes Receivable - Current Portion	126,403	100,650
Prepaid Expenses	57,974	30,271
Total Current Assets	1,811,470	1,398,075
Notes Receivable - Long-Term Portion	1,075,938	1,170,620
Property and Equipment, Net	1,353,236	1,305,386
Other Assets	12,865	13,394
Total Assets	$ 4,253,509	$ 3,887,475

LIABILITIES AND NET ASSETS

	2013	2012
Current Liabilities:		
Accounts Payable	$ 60,940	$ 42,418
Current Portion of Long-Term Debt	-	87,161
Accrued Expenses	59,500	53,564
Total Current Liabilities	120,440	183,143
Net Assets:		
Unrestricted	3,904,957	3,670,224
Temporarily Restricted	228,112	34,108
Total Net Assets	4,133,069	3,704,332
Total Liabilities and Net Assets	$ 4,253,509	$ 3,887,475

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

DESIRE STREET MINISTRIES, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR 2012

	Unrestricted	Temporarily Restricted	2013 Total	2012 Total
Support and Revenue:				
Public Support and Fund Raising - Ministries	$ 1,523,237	$ 628,629	$ 2,151,866	$ 1,803,707
Grant Income	44,017	-	44,017	1,258,769
Rental Income	-	-	-	32,000
	1,567,254	628,629	2,195,883	3,094,476
Net Assets Released from Restriction	434,625	(434,625)	-	-
Total Support and Revenue	2,001,879	194,004	2,195,883	3,094,476
Expenses:				
Program Services - Ministries	1,403,436	-	1,403,436	1,026,490
Management and General	284,488	-	284,488	451,372
Fund Raising	175,187	-	175,187	632,092
Total Expenses	1,863,111	-	1,863,111	2,109,954
Other Income (Expense):				
Interest Income	76,887	-	76,887	25,085
Other Income	1,455	-	1,455	3,933
Realized Gain (Loss) on Sale of Investm	(32)	-	(32)	(233)
Assets	17,655	-	17,655	182,080
Total Other Income (Expenses)	95,965	-	95,965	210,865
Increase in Net Assets	234,733	194,004	428,737	1,195,387
Net Assets at Beginning of Year	3,670,224	34,108	3,704,332	2,508,945
Net Assets at End of Year	$3,904,957	$ 228,112	$4,133,069	$3,704,332

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

DESIRE STREET MINISTRIES, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2013
WITH COMPARATIVE TOTALS FOR 2012

	2013	2012
Cash Flows from Operating Activities:		
Change in Net Assets	$ 428,737	$ 1,195,387
Adjustments to Reconcile the Change in Net Assets to Net Cash Used in Operating Activities:		
Amortization of Imputed Interest	2,839	73,823
Depreciation	19,565	89,797
(Gain) Loss on Disposal of Fixed Assets	(17,655)	(182,080)
Donated Investments	(24,434)	(32,556)
Net Realized and Unrealized (Gains) Losses on Investments	32	233
Changes in Assets and Liabilities:		
(Increase) Decrease in Accounts Receivable	631,310	(328,844)
(Increase) Decrease in Prepaid Expenses	(27,703)	5,571
(Increase) Decrease in Other Assets	529	5,085
Increase (Decrease) in Accounts Payable	18,522	(175,280)
Increase (Decrease) in Accrued Expenses	5,936	(95,573)
Net Cash Provided by Operating Activities	1,037,678	555,563
Cash Flows from Investing Activities:		
Purchases of Property and Equipment	(67,760)	(592,705)
Proceeds from Sale of Equipment	18,000	2,137,146
Loans to Others - Note Receivable	(21,744)	(1,297,000)
Note Receivable Repayments	90,673	25,730
Proceeds from Sale of Investment Securities	24,402	32,323
Net Cash Provided by Investing Activities	43,571	305,494
Cash Flows from Financing Activities:		
Repayments of Long-Term Debt	(90,000)	(686,698)
Net Cash Used in Financing Activities	(90,000)	(686,698)
Net Increase in Cash and Cash Equivalents	991,249	174,359
Cash and Cash Equivalents - Beginning of Year	547,595	373,236
Cash and Cash Equivalents - End of Year	$ 1,538,844	$ 547,595
Supplemental Disclosures of Cash Flow Information:		
Cash Payments for Interest	$ -	$ 7,865

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

Note 1 - Summary of Significant Accounting Policies -

Nature of Activities

Desire Street Ministries, Inc. (the Ministry) was organized as a non-profit corporation without stock under the laws of the State of Louisiana on May 13, 1992. 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 and practice of the Christian faith as revealed in the Holy Scriptures, both Old and New Testaments. Following Hurricane Katrina's devastation, the Ministry began to expand its reach beyond the city.

Today the Ministry is headquartered in Atlanta, GA, and has transitioned from hands-on management of an inner-city ministry, to instead using a partnership model to develop many thriving and sustainable urban ministries.

The Ministry gathers and focuses resources towards the goal of revitalizing impoverished neighborhoods by seeking, educating and involving individuals and organizations with a heart for the inner-city. It also encourages, equips, empowers and connects urban ministry leaders to build effectiveness and sustainability in their efforts towards spiritual and community development. By coaching and caring for urban ministry leaders called there to live and work, the Ministry is currently partnering in Montgomery, AL, Lakeland, FL, Dallas, TX, and Atlanta, GA-as well as in New Orleans, LA, where it continues rebuilding in the Ninth Ward of New Orleans.

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

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 any permanently restricted net assets at June 30, 2013.

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.

Accounts Receivable

Uncollectible accounts receivable are charged directly against earnings when they are determined to be uncollectible. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

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 June 30, 2013, the estimated value of these services was $1,252 and is reflected in these financial statements as public support revenue.

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. During the year ended June 30, 2013, the estimated value of these donated materials and equipment was $27,020 and is reflected in these financial statements as public support revenue.

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. There were no investments held at June 30, 2013.

Property and Equipment

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

Concentration of Credit Risk

The Ministry maintains cash accounts with commercial banks which are insured by the Federal Deposit Insurance Corporation. Periodically cash may exceed the federally insured amount.

Credit risk for accounts receivable is concentrated since substantially all of the balances are receivables from a small number of entities.

Allocation of Expenses

Certain costs have been allocated among the programs and supporting services based on the estimated time spent on each function. In 2013, management changed its method of allocating its expenses among the various functions in order to more closely align with its mission of partnering with other urban ministries as stated in Note 1.

Income Taxes

The Ministry is a qualified not-for-profit organization and is exempt from income taxes under Internal Revenue Code 501(c)(3). Therefore, no provision for income taxes has been included in the accompanying financial statements.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claims or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Ministry may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2013.

The Ministry filed an income tax return in the U.S. federal jurisdiction. With few exceptions, the Ministry is no longer subject to federal tax examinations by tax authorities for years before 2009. Any interest and penalties assessed by income taxing authorities are not significant and are included in general and administrative expenses in these financial statements, if applicable.

Subsequent Events

The Ministry evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through November 12, 2013, the date which the financial statements were available to be issued.

Comparative Totals

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012, from which the summarized information was derived.

Note 2 - Notes Receivable -

As of June 30, 2013, the Ministry had entered into the following notes:

*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, with a balloon payment in April 2015, collateralized by certain real estate in Baton Rouge.	$ 1,168,869
Note from an individual dated November 2012 with an original balance of $3,744 at a rate of 0%, due in monthly installments of $200 beginning December 2012, the note matures in May 2014 and is not collateralized.	2,244

(CONTINUED)

Note from an individual dated November 2012 with an original balance of $38,432 at a rate of 12%, due in monthly installments of $2,000 beginning November 2012, the note matures in November 2014, collateralized by vehicles.	31,228
	1,202,341
Current Portion of Notes Receivable	(126,403)
Long-Term Portion of Notes Receivable	$ 1,075,938

*This note receivable was entered into in connection with the sale of the Ministries Baton Rouge Academy Campus in 2012.

Maturities of the long-term portion of the notes receivable are as follows:

June 30, 2015	$ 1,075,938

Note 3 - Property and Equipment -

The details of property and equipment as of June 30, 2013, are as follows:

Automobiles	$ 31,052
Building	233,560
Furniture, Fixtures and Equipment	59,032
	323,644
Less: Accumulated Depreciation	(113,732)
	209,912
Construction in Progress	868,233
Land	275,091
	$ 1,353,236

Depreciation expense for the year ended June 30, 2013 was $19,565. See Note 7 regarding the Construction in Progress at June 30, 2013.

Note 4 - Operating Leases -

The Ministry leases certain equipment and office space under non-cancelable operating leases. Total lease expense for the year ended June 30, 2013 amounted to $26,446. Future minimum lease payments under leases that have remaining non-cancelable terms in excess of one year at June 30, 2013 are as follows:

Year	Amount
2014	$ 12,902
2015	12,636
2016	1,236
2017	1,236
2018	721
	$ 28,731

Note 5 - Restrictions of Net Assets -

The details of temporarily restricted net assets are as follows:

Partner Ministries	$ 885
Building Fund	227,227
	$ 228,112

Note 6 - Net Assets Released from Restrictions -

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

Development	$ 23,224
Staff Support	30,977
Building Fund	194,850
Partner Ministries	182,735
	431,786
Amortized Portion of Imputed Interest	2,839
	$ 434,625

Note 7 - Commitments and Contingencies -

In 2011, the Ministry was awarded an $8.8 million grant from the U.S. Department of Homeland Security to completely rebuild its New Orleans multi-purpose center which was damaged during Hurricane Katrina in 2005. Construction in progress recorded in these financial statements at June 30, 2013 relating to this project is $868,233. At June 30, 2013, this project is currently on hold as an alternate project request is being reviewed by FEMA. Management anticipates a portion of the future construction related costs will be reimbursed by the grant and any unreimbursed amounts will be funded by the Ministry.

As noted above, the Ministry suffered damages from Hurricane Katrina in 2005. In 2011 and 2012, the Ministry recovered a portion of these damages (relating to costs incurred for relocation, contents, etc., and the rebuilding funds discussed above), from the Governor's Office of Homeland Security and Emergency Preparedness (GOHSEP) in the amount of approximately $1.9 million. During the current year, the Department of Homeland Security Office of Inspector General (DHS-OIG) performed an audit of the Disaster Grants - Public Assistance Program which included funds the Ministry had received from GOHSEP. As of the date of our audit report, a final report has not been issued by DHS-OIG and any liability to the Ministry for any disallowed reimbursements resulting from the DHS-OIG's audit is unknown. Due to the uncertainty of any potential liability, management has not accrued a liability in these financial statements. However, any potential liability could be material to the financial statements. Management has indicated that any future liability would be applied against the unspent amount of the grant award, thereby reducing future reimbursements.

The financial assistance received from federal agencies is subject to compliance audits under OMB Circular A-133 (Single Audit) and monitoring reviews by the granting agencies. As a result, amounts might be subject to disallowance upon acceptance of the audits and monitoring reviews by the federal granting agencies.