DOWNTOWN MINISTRY CENTER, INC.

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2005

DOWNTOWN MINISTRY CENTER, INC.

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CROSSLIN VADEN
CERTIFIED PUBLIC ACCOUNTANTS & ASSOCIATES

Independent Auditors' Report

Board of Directors
Downtown Ministry Center, Inc.
Nashville, Tennessee

We have audited the accompanying statement of financial position of Downtown Ministry Center, Inc. (the "Organization") as of December 31, 2005, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Downtown Ministry Center, Inc. as of December 31, 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2006 on our consideration of Downtown Ministry Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Board of Directors
Downtown Ministry Center, Inc.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Downtown Ministry Center, Inc., taken as a whole. The accompanying schedule of expenditures of Federal awards and state financial assistance is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Crosslin, Vaden + Associates, P.C.

Nashville, Tennessee
May 9, 2006

DOWNTOWN MINISTRY CENTER, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS	
Cash	$317,498
Government grants receivable, net	34,581
Prepaid insurance	1,843
Total current assets	353,922
LEASEHOLD IMPROVEMENTS AND EQUIPMENT, net	453,639
Total assets	$807,561

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 89,088
Total current liabilities	89,088
NET ASSETS:	
Unrestricted	695,673
Temporarily restricted	22,800
Total net assets	718,473
Total liabilities and net assets	$807,561

See accompanying notes to the financial statements.

DOWNTOWN MINISTRY CENTER, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2005

	2005		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE:			
Support:			
Contributions	$392,636	$ -	$392,636
Grants	309,493	-	309,493
Net assets released from restrictions	27,200	(27,200)	-
Total support	729,329	(27,200)	702,129
Revenue:			
Rental income	49,731	-	49,731
Interest income	2,058	-	2,058
Other income	3,992	-	3,992
Total revenue	55,781	-	55,781
Total support and revenue	785,110	(27,200)	757,910
EXPENSES			
Program services			
Counseling	48,730	-	48,730
Housing and ministry	247,389	-	247,389
Total program services	296,119	-	296,119
Supporting services			
Administrative	37,137	-	37,137
Fund raising	24,921	-	24,921
Total supporting services	62,058	-	62,058
Total expenses	358,177	-	358,177
Net increase (decrease) in net assets	426,933	(27,200)	399,733
Net assets at beginning of year	268,740	50,000	318,740
Net assets at end of year	$695,673	$ 22,800	$718,473

See accompanying notes to financial statements.

DOWNTOWN MINISTRY CENTER, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2005

Cash flows from operating activities:	
Increase in net assets	$ 399,733
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	11,548
Increase in accounts receivable	(34,581)
Increase in prepaid insurance	(839)
Increase in accounts payable	88,447
Net cash provided by operating activities	464,308
Cash flows from investing activities:	
Purchases of leasehold improvements and equipment	(236,301)
Net cash used in investing activities	(236,301)
Net increase in cash	228,007
Cash at beginning of year	89,491
Cash at end of year	$ 317,498

See accompanying notes to financial statements.

DOWNTOWN MINISTRY CENTER, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2005

	Program Services	
	Counseling	Housing and Ministry
Total salaries, wages and benefits	$ -	$85,416
Other expenses:		
Counseling	48,730	-
Office rent	-	39,900
Other program expenses	-	20,264
Utilities	-	26,978
Maintenance	-	23,523
Provision for depreciation	-	10,970
Telephone	-	5,091
Resident outfitting	-	4,039
Resident meals	-	2,095
Automobile expense	-	1,202
Insurance	-	614
Travel and entertainment	-	567
Supplies	-	26,730
Professional fees	-	-
Dues and subscriptions	-	-
Postage and delivery	-	-
Bank fees	-	-
Marketing	-	-
Total other expenses	48,730	161,973
Total expenses	$48,730	$247,389

Supporting Services		
Administrative	Fund Raising	Total
$14,737	$14,737	$114,890
-	-	48,730
2,100	-	42,000
-	-	20,264
1,420	-	28,398
1,238	-	24,761
578	-	11,548
5,090	-	10,181
-	-	4,039
-	-	2,095
-	-	1,202
1,810	-	2,424
95	71	733
6,067	-	32,797
2,226	-	2,226
1,392	-	1,392
236	236	472
148	-	148
-	9,877	9,877
22,400	10,184	243,287
$37,137	$24,921	$358,177

See accompanying notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

Downtown Ministry Center, Inc. (the "Organization") is a not-for-profit organization incorporated in 2003 to provide physical, emotional, and spiritual support to women at their point of need. Through its program called The Next Door, the Organization provides these women with transitional living and supportive services such as skills training and counseling services.

Accrual Basis and Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting.

The Organization classifies its revenue, expenses, gains, and losses into three classes of net assets based on the existence or absence of donor-imposed restrictions. Net assets of the Organization and changes therein are classified as follows:

> Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
>
> Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.
>
> Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

The amount for each of these classes of net assets is displayed in the statement of financial position and the amount of change in each class of net assets is displayed in the statement of activities. The Organization has no permanently restricted net assets as of December 31, 2005.

In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as reclassifications in the statement of activities.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Contributions

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose 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 Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Leasehold Improvements and Equipment

Leasehold improvements and equipment are stated at cost, or if contributed, at fair market value at date of gift. Depreciable assets are being depreciated using the straight-line method over the estimated useful lives of the assets, which range from five to 30 years. Leasehold improvements are depreciated over the estimated useful life of the property, or over the expected term of the lease, whichever is shorter. Maintenance and repairs are charged to expense as incurred, and betterments are capitalized.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income taxes has been made in the financial statements.

Use of Estimates in the Preparation of Financial Statements

Judgment and estimation are exercised by management in certain areas of the preparation of financial statements. The most significant area is the recovery period for leasehold improvements and equipment. Management believes that such estimates have been based on reasonable assumptions and that such estimates are adequate. Actual results could differ from those estimates.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Cash and Cash Equivalents

For purpose of the statements of cash flows, the Organization considers all cash and all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments

The carrying value of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short maturity of these instruments.

B. GOVERNMENT GRANTS RECEIVABLE

Government grants receivable are due within one year of December 31, 2005. No allowance for uncollectible accounts was considered necessary at December 31, 2005.

C. LEASEHOLD IMPROVEMENTS AND EQUIPMENT

Leasehold improvements and equipment at December 31, 2005 consisted of the following:

Leasehold improvements	$ 269,650
Furniture and fixtures	23,635
Equipment and computers	24,018
Leasehold improvements in progress	156,029
	473,332
Less: Accumulated depreciation	(19,693)
	$ 453,639

Depreciation expense for the year ended December 31, 2005 totaled $11,548.

D. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of $27,200 were released from donor restrictions by satisfying the restricted purposes or by occurrence of other events specified by donors for the year ended December 31, 2005. The purpose restrictions accomplished were for expenditures relating to the renovation of certain facilities of the Organization. The remaining portion of temporarily restricted net assets totaled $22,800 as of December 31, 2005 and are restricted for the renovation of facilities.

E. LEASES

The Organization leases a copier. Rent expense under the operating lease for the year ended December 31, 2005 was $322. A summary of future minimum rental payments required under the lease follows:

	Amount
2006	$1,932
2007	1,932
2008	1,610
	$5,474

F. ADVERTISING COSTS

The Organization expenses the cost of advertising when incurred, which totaled $9,877 for the year ended December 31, 2005.

G. GIFTS IN KIND

The Organization records donated materials and services at fair value on the date of donation. During 2005, the Organization recorded donated materials and supplies with a fair value of $26,730.

In addition, Downtown Ministry Center, Inc., leases a building from another Organization. The lease arrangement with the related party provides Downtown Ministry Center, Inc. with certain contributed rent advantages which are recorded at a fair value of $42,000 for the year ended December 31, 2005.

H. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash in high credit quality financial institutions at balances which, at times, may be uninsured or may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to a significant concentration of risk on cash.

SUPPLEMENTAL INFORMATION

DOWNTOWN MINISTRY CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2005

Program Title	Federal CFDA Number	Contract Number
The Next Door		
Passed through Tennessee Department of Human Services	14.231	Z-05-020622
Passed through Tennessee Department of Human Services	14.231	Z-06-026055-01
Passed through Tennessee Department of Health	N/A	DP-06-02295-00
Total		

* Denotes fee for services contract.

Grant Period	Program Award	December 31, 2004 Accrued (Deferred)	Receipts	Expenditures	December 31, 2005 Accrued (Deferred)
01-01-05 to 06-30-05	$100,713	$ -	$100,713	$100,713	$ -
07-01-05 to 06-30-06	256,553	-	171,489	206,070	34,581
		-	272,202	306,783	34,581
08-03-05 to 08-02-06	*	-	2,710	2,710	-
		-	2,710	2,710	-
		$ -	$274,912	$309,493	$34,581

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Downtown Ministry Center, Inc.
Nashville, Tennessee

We have audited the financial statements of Downtown Ministry Center, Inc. (the "Organization") as of and for the year ended December 31, 2005, and have issued our report thereon dated May 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Board of Directors
Downtown Ministry Center, Inc.

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

Crosslin, Vaden & Associates, P.C.

Nashville, Tennessee
May 9, 2006