

RENEWAL HOUSE, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
(IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS)**

June 30, 2007 and 2006

RENEWAL HOUSE, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Renewal House, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Renewal House, Inc. (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, 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 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 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 Renewal House, Inc. as of June 30, 2007 and 2006, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2007, on our consideration of Renewal House, 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Renewal House, Inc. taken as a whole. The accompanying schedule of expenditures of federal and state awards 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.

November 7, 2007

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Renewal House, Inc.
Nashville, Tennessee

We have audited the accompanying statements of financial position of Renewal House, Inc. (a nonprofit organization) as of June 30, 2007 and 2006, and the related statements of activities, functional expenses, 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.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Renewal House, Inc. as of June 30, 2007 and 2006, 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.

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Frasier, Dean + Howard, PLLC
November 7, 2007

RENEWAL HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 669,660	\$ 433,324
Investments	24,970	543,910
Grants receivable	77,733	115,696
Other	<u>9,910</u>	<u>9,910</u>
Total current assets	782,273	1,102,840
Property and equipment, net	1,167,039	1,142,358
Investments	<u>704,737</u>	<u>137,078</u>
Total assets	<u><u>\$ 2,654,049</u></u>	<u><u>\$ 2,382,276</u></u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	<u>\$ 10,670</u>	<u>\$ 10,308</u>
Total current liabilities	<u>10,670</u>	<u>10,308</u>
Net assets:		
Unrestricted:		
Undesignated	2,221,513	2,200,699
Designated	<u>280,002</u>	<u>156,269</u>
	2,501,515	2,356,968
Temporarily restricted	<u>141,864</u>	<u>15,000</u>
Total net assets	<u>2,643,379</u>	<u>2,371,968</u>
Total liabilities and net assets	<u><u>\$ 2,654,049</u></u>	<u><u>\$ 2,382,276</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Federal and State grants	\$ 918,343	\$ -	\$ 918,343
Contributions	345,616	126,864	472,480
Rental income	42,444	-	42,444
Special events, less direct benefit costs of \$25,189	48,126	-	48,126
Program service fees	18,855	-	18,855
Investment income	63,793	-	63,793
	<u>1,437,177</u>	<u>126,864</u>	<u>1,564,041</u>
			:
Expenses:			
Program services	1,094,514	-	1,094,514
Management and general	114,577	-	114,577
Fundraising	83,539	-	83,539
	<u>1,292,630</u>	<u>-</u>	<u>1,292,630</u>
Change in net assets	144,547	126,864	271,411
Net assets - beginning of year	<u>2,356,968</u>	<u>15,000</u>	<u>2,371,968</u>
Net assets - end of year	<u><u>\$ 2,501,515</u></u>	<u><u>\$ 141,864</u></u>	<u><u>\$ 2,643,379</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Federal and State grants	\$ 828,704	\$ -	\$ 828,704
Contributions	356,462	-	356,462
Rental income	50,968	-	50,968
Special events, less direct benefit costs of \$24,951	41,844	-	41,844
Program service fees	41,390	-	41,390
Investment income	9,989	-	9,989
Other	724	-	724
	<u>1,330,081</u>	<u>-</u>	<u>1,330,081</u>
Total public support and revenue			
Expenses:			
Program services	1,016,994	-	1,016,994
Management and general	109,235	-	109,235
Fundraising	85,435	-	85,435
	<u>1,211,664</u>	<u>-</u>	<u>1,211,664</u>
Total expenses			
Change in net assets	118,417	-	118,417
Net assets - beginning of year	<u>2,238,551</u>	<u>15,000</u>	<u>2,253,551</u>
Net assets - end of year	<u>\$ 2,356,968</u>	<u>\$ 15,000</u>	<u>\$ 2,371,968</u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2007

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 627,068	\$ 83,050	\$ 63,351	\$ 773,469
Employee benefits	124,894	18,803	15,463	159,160
Repairs and maintenance	109,943	7,086	-	117,029
Professional fees	54,939	1,808	1,989	58,736
Depreciation	49,363	-	-	49,363
Insurance	32,558	831	634	34,023
Transportation	32,836	-	-	32,836
Supplies	19,888	775	383	21,046
Communications	12,788	1,048	1,153	14,989
Miscellaneous	9,130	194	214	9,538
Conferences and meetings	8,053	-	-	8,053
Printing	4,368	460	230	5,058
Travel	3,871	-	-	3,871
Recruiting	3,459	12	57	3,528
Fees and memberships	478	423	65	966
Postage	878	87	-	965
	<u>\$ 1,094,514</u>	<u>\$ 114,577</u>	<u>\$ 83,539</u>	<u>\$ 1,292,630</u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2006

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 557,144	\$ 80,659	\$ 65,242	\$ 703,045
Employee benefits	120,479	17,506	14,857	152,842
Repairs and maintenance	97,803	4,812	-	102,615
Depreciation	44,619	-	-	44,619
Supplies	42,231	1,430	605	44,266
Professional fees	37,842	1,707	1,878	41,427
Insurance	32,077	726	587	33,390
Transportation	28,738	-	-	28,738
Conferences and meetings	16,420	-	-	16,420
Communications	12,796	1,184	1,303	15,283
Miscellaneous	14,786	233	257	15,276
Printing	3,182	347	173	3,702
Fees and memberships	2,323	601	393	3,317
Travel	2,957	-	-	2,957
Recruiting	2,659	30	140	2,829
Postage	938	-	-	938
	<u>\$ 1,016,994</u>	<u>\$ 109,235</u>	<u>\$ 85,435</u>	<u>\$ 1,211,664</u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 271,411	\$ 118,417
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	49,363	44,619
Unrealized and realized (gains) losses on investments	(9,030)	15,259
Loss on disposal of property and equipment	957	-
Changes in current assets and liabilities:		
Grants receivable	37,963	(75,298)
Accounts payable	362	1,540
	<u>351,026</u>	<u>104,537</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Proceeds from sale of investments	529,388	275,000
Purchase of investments	(569,077)	(332,011)
Purchase of property and equipment	(75,001)	(202,113)
	<u>(114,690)</u>	<u>(259,124)</u>
Net cash used in investing activities		
Net increase (decrease) in cash and cash equivalents	236,336	(154,587)
Cash and cash equivalents - beginning of year	<u>433,324</u>	<u>587,911</u>
Cash and cash equivalents - end of year	<u>\$ 669,660</u>	<u>\$ 433,324</u>

See accompanying notes.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Renewal House, Inc. (the "Organization") is a recovery community for women and children affected by addiction. The Organization seeks to preserve families by helping mothers live sober, self-sufficient lives, ensuring children a healthy start through early intervention, and providing education and prevention leadership to create a more drug-free society. In August 2003, the Organization added an Intensive Outpatient Treatment Program, which is licensed by the State of Tennessee and serves addicted women in poverty.

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Accordingly, net assets of the Organization, and changes therein are classified and reported 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, donors of these assets permit the Organization to use all or part of the income earned for general or specific purposes. The Organization currently has no permanently restricted net assets.

Contributions

The Organization has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, contributions are recognized when a donor makes an unconditional promise to give to the Organization. Contributions that are not restricted, or are restricted by the donor and the restriction expires or is met during the fiscal year, are reported as increases in unrestricted net assets. All other contributions are reported as increases in temporarily or permanently restricted net assets.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity, when purchased, of three months or less to be cash equivalents.

Property and Equipment

It is the Organization's policy to capitalize property and equipment over \$500. All purchases less than that amount are expensed in the period incurred. Donated property and equipment are reported as contributions at estimated fair value. Unless donor-restricted, all donated property and equipment are reported as increases in unrestricted net assets. Property and equipment are depreciated over estimated useful lives using the straight-line method. Useful lives range from 3 years for computer equipment to 27.5 years for building and building improvements.

Investments

The Organization has adopted the provisions of Statement of Financial Accounting Standards SFAS No. 124, *Accounting for Certain Investments Held for Not-for-Profit Organizations*. Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Investment income and unrealized gains and losses are reported as changes in unrestricted net assets unless the use of income has been restricted by the donor.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2007</u>	<u>2006</u>
Land	\$ 203,879	\$ 203,879
Building and building improvements	1,263,389	1,192,720
Furniture and equipment	<u>109,704</u>	<u>175,042</u>
	1,576,972	1,571,641
Less accumulated depreciation	<u>(409,933)</u>	<u>(429,283)</u>
	<u>\$ 1,167,039</u>	<u>\$ 1,142,358</u>

NOTE 3 – INVESTMENTS

Investments consist of the following at June 30:

	<u>2007</u>	<u>2006</u>
Equities	\$ 272,173	\$ 8,000
Mutual fund	-	208,309
Bonds	288,964	-
Certificates of deposit (rates ranging from 5.0% to 5.3%, maturity dates ranging from July 19, 2006 through September 30, 2019)	<u>168,570</u>	<u>464,679</u>
	<u>\$ 729,707</u>	<u>\$ 680,988</u>

Classified on the statements of financial position:

Current	\$ 24,970	\$ 543,910
Noncurrent	<u>704,737</u>	<u>137,078</u>
Total	<u>\$ 729,707</u>	<u>\$ 680,988</u>

The following schedule summarizes total investment return for all investments in the statements of activities for the years ended June 30:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 54,763	\$ 25,248
Net realized/unrealized gains (losses) on investments	<u>9,030</u>	<u>(15,259)</u>
	<u>\$ 63,793</u>	<u>\$ 9,989</u>

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2007 and 2006

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Organization's cash account balances at June 30, 2007 and 2006 exceeded Federal Deposit Insurance Corporation ("FDIC") insurance limits. In management's opinion, risk related to such deposits is reduced based on the credit quality of its depository financial institution.

NOTE 5 – CONCENTRATION OF REVENUE

The Organization receives a substantial amount of its revenue from Federal and State grants. A significant reduction in the amount received could have an adverse effect on the operations of the Organization.

NOTE 6 – RETIREMENT PLAN

The Organization offers a simple IRA plan that covers eligible employees that choose to participate. The Organization made contributions of \$4,577 and \$4,905 for the years ended June 30, 2007 and 2006, respectively.

NOTE 7 – NET ASSETS

On June 30, 2000, the Organization's Executive Committee created a separate fund with unrestricted contributions to provide resources for the long-term needs of the Organization. Furthermore, effective fiscal year 2007, the Executive Committee approved an investment policy whereby 33% of the Organization's investments are to be designated for long-term needs. As of June 30, 2007 and 2006, \$280,002 and \$156,269, respectively, were designated as Endowment Funds for long-term use.

Temporarily restricted net assets include the following contributions as of June 30:

	<u>2007</u>	<u>2006</u>
Expansion of vocational program	\$ 15,000	\$ 15,000
Computer learning center	76,864	-
Playground renovations	<u>50,000</u>	<u>-</u>
	<u>\$ 141,864</u>	<u>\$ 15,000</u>

SUPPLEMENTAL INFORMATION

RENEWAL HOUSE, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year ended June 30, 2007

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2006	Cash Receipts	Expenditures	Receivable June 30, 2007
U.S. Department of Homeland Security, passed through United Way	Emergency Food and Shelter Program	97.024	N/A	\$ -	\$ 11,000	\$ 11,000	\$ -
Total for U.S. Department of Homeland Security*				-	11,000	11,000	-
U.S. Department of Housing and Urban Development:							
U.S. Department of Housing and Urban Development	Supportive Housing Program	14.235	TN37B604004	-	-	2,471	2,471
U.S. Department of Housing and Urban Development	Supportive Housing Program	14.235	TN37B304003	1,761	34,386	32,625	-
U.S. Department of Housing and Urban Development	Supportive Housing Program	14.235	TN37B504009	4,124	26,419	22,295	-
Total for CFDA No. 14.235				5,885	60,805	57,391	2,471
Passed through Nashville Metropolitan Development and Housing Agency	Community Development Block Grant	14.218	N/A	7,665	20,000	12,335	-
Total for CFDA No. 14.218*				7,665	20,000	12,335	-
Passed through Nashville Metropolitan Development and Housing Agency	Emergency Shelter Grants Program	14.231	S98MC47004	-	7,000	7,000	-
Total for CFDA No. 14.231*				-	7,000	7,000	-
Total for U.S. Department of Housing and Urban Development				13,550	87,805	76,726	2,471
U.S. Department of Health and Human Services passed through:							
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Z-07-034155-00	-	226,114	245,996	19,882
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-06-027873-00	43,578	43,578	-	-
Total for CFDA No. 93.959*				43,578	269,692	245,996	19,882
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-03	-	121,409	126,182	4,773
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-01	951	944	-	7
Total for CFDA No. 93.558*				951	122,353	126,182	4,780
TN Department of Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	93.958	GR-07-17980-00	-	3,166	3,978	812
TN Department of Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	93.958	GR-06-17009-00	1,616	1,616	-	-
Total for CFDA No. 93.958*				1,616	4,782	3,978	812
Total for U.S. Department of Health and Human Services				46,145	396,827	376,156	25,474
U.S. Department of Education passed through:							
TN Department of Human Services	Vocational Rehabilitation Grants to States	84.126	GR-02-14088	5,014	5,014	-	-
Total for U.S. Department of Education*				5,014	5,014	-	-
Total Federal Awards				\$ 64,709	\$ 500,646	\$ 463,882	\$ 27,945

RENEWAL HOUSE, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year ended June 30, 2007

STATE AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2006	Cash Receipts	Expenditures	Receivable June 30, 2007
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Z-07-034155-00#	\$ -	\$ 60,106	\$ 66,397	\$ 6,291
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-06-027873-00#	11,762	11,762	-	-
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-03#	-	225,474	234,339	8,865
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-01#	10,589	10,507	-	82
TN Department of Human Services	Vocational Rehabilitation Grants to States	84.126	GR-02-14088#	1,670	1,670	-	-
TN Department of Mental Health and Developmental Disabilities	Early Childhood Intervention	93.958	GR-07-17980-00#	-	16,621	20,901	4,280
TN Department of Mental Health and Developmental Disabilities	Early Childhood Intervention	93.958	GR-06-17009-00#	7,239	7,239	-	-
TN Department of Children's Services	Family Preservation/ Addiction Recovery Program	N/A	GR-05-17561-00	16,118	12,687	-	3,431
TN Department of Children's Services	Technical Assistance	N/A	GR-06-17841-00	3,609	57,790	72,460	18,279
TN Department of Children's Services	Needs Assessment	N/A	GR-07-18284-00	-	51,382	59,942	8,560
Total State Awards				50,987	455,238	454,039	49,788
Total Federal and State Awards				\$ 115,696	\$ 955,884	\$ 917,921	\$ 77,733

* Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

NOTE 1 - BASIS OF ACCOUNTING

The Supplementary Schedule of Expenditures of Federal and State Awards is prepared on the accrual basis of accounting.