

RENEWAL HOUSE, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

June 30, 2004

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FRASIER, DEAN & HOWARD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Renewal House, Inc. (a nonprofit organization) as of June 30, 2004, and the related statements of activities, functional expenses, and cash flows 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. 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 Renewal House, Inc. as of June 30, 2004, 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.

Fraser, Dean & Howard, PLLC

October 18, 2004

RENEWAL HOUSE, INC.
STATEMENT OF FINANCIAL POSITION
Year ended June 30, 2004

Assets

Current assets:	
Cash and cash equivalents	\$ 306,688
Investments	439,368
Grants receivable	64,027
Other	<u>9,910</u>
Total current assets	819,993
Property and equipment, net	952,534
Investments	<u>385,848</u>
Total assets	<u><u>\$ 2,158,375</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	<u>\$ 6,408</u>
Total current liabilities	<u>6,408</u>
Net assets:	
Unrestricted:	
Undesignated	2,015,776
Designated	<u>136,191</u>
Total unrestricted net assets	<u>2,151,967</u>
Total liabilities and net assets	<u><u>\$ 2,158,375</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF ACTIVITIES
Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Federal and State grants	\$ 807,234	\$ -	\$ 807,234
Contributions	277,880	-	277,880
Program service fees	36,028	-	36,028
Rental income	44,431	-	44,431
Special events, less direct benefit costs of \$39,988	51,642	-	51,642
Other	4,391	-	4,391
Interest income	10,235	-	10,235
Net assets released from restrictions	22,500	(22,500)	-
	<u>1,254,341</u>	<u>(22,500)</u>	<u>1,231,841</u>
Total public support and revenue			
Expenses:			
Program services	937,141	-	937,141
Management and general	95,477	-	95,477
Fundraising	75,435	-	75,435
	<u>1,108,053</u>	<u>-</u>	<u>1,108,053</u>
Total expenses			
Change in net assets	146,288	(22,500)	123,788
Net assets - beginning of year	<u>2,005,679</u>	<u>22,500</u>	<u>2,028,179</u>
Net assets - end of year	<u><u>\$ 2,151,967</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,151,967</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2004

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 519,412	\$ 71,089	\$ 58,316	\$ 648,817
Employee benefits	114,527	12,797	11,639	138,963
Repairs and maintenance	92,230	3,646	-	95,876
Depreciation	52,431	-	-	52,431
Program schedules	29,278	-	-	29,278
Supplies	26,830	656	225	27,711
Insurance	24,222	2,177	525	26,924
Transportation	22,442	-	-	22,442
Miscellaneous	15,770	1,409	1,831	19,010
Professional fees	14,031	1,560	1,717	17,308
Communications	7,093	547	601	8,241
Printing	5,419	261	-	5,680
Postage	4,480	323	118	4,921
Conferences and meetings	4,009	339	338	4,686
Recruiting	2,243	560	-	2,803
Fees and memberships	1,829	-	-	1,829
Travel	895	113	125	1,133
	<u>\$ 937,141</u>	<u>\$ 95,477</u>	<u>\$ 75,435</u>	<u>\$ 1,108,053</u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF CASH FLOWS
Year ended June 30, 2004

Cash flows from operating activities:	
Change in net assets	\$ 123,788
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
Depreciation	52,431
Unrealized and realized gains on investments	(1,616)
Changes in current assets and liabilities:	
Grants receivable	13,188
Pledges receivable	50,000
Prepaid expenses and other	5,447
Accounts payable	<u>(7,098)</u>
Net cash provided by operating activities	<u>236,140</u>
Cash flows from investing activities:	
Proceeds from sale of investments	81,022
Purchase of investments	(324,536)
Purchase of property and equipment	<u>(131,446)</u>
Net cash used in investing activities	<u>(374,960)</u>
Net decrease in cash and cash equivalents	(138,820)
Cash and cash equivalents - beginning of year	<u>445,508</u>
Cash and cash equivalents - end of year	<u><u>\$ 306,688</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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. Renewal House 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, Renewal House added an Intensive Outpatient Treatment program, which is licensed by the Tennessee Department of Health, 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 U.S. generally accepted accounting principles. Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Accounting Financial 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. The Organization currently has no temporarily restricted net assets.

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 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, 2004

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 statement 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 its 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 their 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's investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement 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 generally accepted accounting principles 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, 2004

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2004:

Land	\$ 203,879
Building and building improvements	941,327
Furniture and equipment	<u>150,792</u>
	1,295,998
Less accumulated depreciation	<u>(343,464)</u>
	<u>\$ 952,534</u>

NOTE 3 – INVESTMENTS

Investments consists of the following at June 30, 2004:

Privately held stock (at cost, which approximates fair market value)	\$ 8,000
Mutual fund	204,110
Certificates of deposit (rates ranging from .90% to 5.04%, maturity dates ranging from July 2004 to April 2015)	<u>613,106</u>
	<u>\$ 825,216</u>

Classified on the statement of financial position:

Current	\$ 439,368
Noncurrent	<u>385,848</u>
Total	<u>\$ 825,216</u>

The following schedule summarizes total investment return for all investments in the statement of activities for the year ended June 30, 2004:

Interest and dividend income	\$ 8,619
Net realized/unrealized gains on investments	<u>1,616</u>
	<u>\$ 10,235</u>

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2004

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Organization may at times have cash amounts at financial institutions in excess of the amount insured by the Federal Deposit Insurance Corporation. The Organization has not experienced any losses in such amounts and does not believe it is exposed to any significant concentration of credit risk.

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 substantially all employees of the Organization who have completed one year of service and have had at least \$5,000 in compensation in any previous two years and are reasonably expected to receive \$5,000 in compensation in the current year. The Organization made contributions of \$8,200 for the year ended June 30, 2004.

NOTE 7 – DESIGNATED NET ASSETS

On June 30, 2000, the Organization's Executive Committee created an endowment fund in the amount of \$100,000 with unrestricted contributions to be used solely for the Mother's and Children's Residential Program conducted by the Organization. As of June 30, 2004, the designated endowment totaled \$136,191.

NOTE 8 – RELATED PARTY

A board member's investment team at a brokerage firm serves as the securities broker that manages the Organization's investment resources. The Finance Committee, Executive Committee or the full Board of Directors approves all investment decisions.