

**RENEWAL HOUSE, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT**

**June 30, 2005 and 2004**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
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, 2005 and 2004, 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, 2005 and 2004, 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 September 26, 2005, 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.

*Fraser, Dean & Howard PLLC*  
September 26, 2005

**RENEWAL HOUSE, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**Years ended June 30, 2005 and 2004**

|                                   | <b>Assets</b> | <b>2005</b>         | <b>2004</b>         |
|-----------------------------------|---------------|---------------------|---------------------|
| Current assets:                   |               |                     |                     |
| Cash and cash equivalents         |               | \$ 587,911          | \$ 306,688          |
| Investments                       |               | 432,192             | 439,368             |
| Grants receivable                 |               | 40,398              | 64,027              |
| Other                             |               | 9,910               | 9,910               |
| Total current assets              |               | 1,070,411           | 819,993             |
| Property and equipment, net       |               | 984,864             | 952,534             |
| Investments                       |               | 207,044             | 385,848             |
| Total assets                      |               | <u>\$ 2,262,319</u> | <u>\$ 2,158,375</u> |
| <b>Liabilities and Net Assets</b> |               |                     |                     |
| Current liabilities:              |               |                     |                     |
| Accounts payable                  |               | \$ 8,768            | \$ 6,408            |
| Total current liabilities         |               | 8,768               | 6,408               |
| Net assets:                       |               |                     |                     |
| Unrestricted:                     |               |                     |                     |
| Undesignated                      |               | 2,080,195           | 2,015,776           |
| Designated                        |               | 158,356             | 136,191             |
|                                   |               | 2,238,551           | 2,151,967           |
| Temporarily restricted            |               | 15,000              | -                   |
| Total net assets                  |               | 2,253,551           | 2,151,967           |
| Total liabilities and net assets  |               | <u>\$ 2,262,319</u> | <u>\$ 2,158,375</u> |

See accompanying notes.

**RENEWAL HOUSE, INC.**  
**STATEMENT OF ACTIVITIES**  
Year ended June 30, 2005

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|---------------------|
| Public support and revenue:                           |                     |                                   |                     |
| Federal and State grants                              | \$ 791,544          | \$ -                              | \$ 791,544          |
| Contributions   | 269,538             | 15,000                            | 284,538             |
| Program service fees                                  | 39,157              | -                                 | 39,157              |
| Rental income   | 51,155              | -                                 | 51,155              |
| Special events, less direct benefit costs of \$23,102 | 55,408              | -                                 | 55,408              |
| Other   | 375                 | -                                 | 375                 |
| Interest income                                       | 27,908              | -                                 | 27,908              |
|   | <u>1,235,085</u>    | <u>15,000</u>                     | <u>1,250,085</u>    |
| Total public support and revenue                      |                     |                                   |                     |
| Expenses:   |                     |                                   |                     |
| Program services                                      | 957,559             | -                                 | 957,559             |
| Management and general                                | 107,892             | -                                 | 107,892             |
| Fundraising   | 83,050              | -                                 | 83,050              |
|   | <u>1,148,501</u>    | <u>-</u>                          | <u>1,148,501</u>    |
| Total expenses  |                     |                                   |                     |
| Change in net assets                                  | 86,584              | 15,000                            | 101,584             |
| Net assets - beginning of year                        | <u>2,151,967</u>    | <u>-</u>                          | <u>2,151,967</u>    |
| Net assets - end of year                              | <u>\$ 2,238,551</u> | <u>\$ 15,000</u>                  | <u>\$ 2,253,551</u> |

See accompanying notes.

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

|   | <u>Unrestricted</u> | <u>Temporarily<br/>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>\$ 2,151,967</u> | <u>\$ -</u>                       | <u>\$ 2,151,967</u> |

See accompanying notes.

**RENEWAL HOUSE, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended June 30, 2005**

|                          | <b>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total</b>        |
|--------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| Salaries                 | \$ 527,723                  | \$ 77,644                             | \$ 63,123          | \$ 668,490          |
| Employee benefits        | 111,914                     | 17,000                                | 12,749             | 141,663             |
| Repairs and maintenance  | 94,029                      | 3,918                                 | -                  | 97,947              |
| Depreciation             | 41,200                      | -                                     | -                  | 41,200              |
| Supplies                 | 46,290                      | 581                                   | 291                | 47,162              |
| Insurance                | 26,792                      | 2,382                                 | 595                | 29,769              |
| Transportation           | 27,538                      | -                                     | -                  | 27,538              |
| Miscellaneous            | 22,371                      | 1,887                                 | 2,695              | 26,953              |
| Professional fees        | 30,996                      | 2,133                                 | 2,369              | 35,498              |
| Communications           | 7,882                       | 642                                   | 641                | 9,165               |
| Printing                 | 8,538                       | 449                                   | -                  | 8,987               |
| Postage                  | 3,243                       | 250                                   | 71                 | 3,564               |
| Conferences and meetings | 4,480                       | 365                                   | 364                | 5,209               |
| Recruiting               | 2,009                       | 502                                   | -                  | 2,511               |
| Fees and memberships     | 1,460                       | -                                     | -                  | 1,460               |
| Travel                   | 1,094                       | 139                                   | 152                | 1,385               |
|                          | <u>\$ 957,559</u>           | <u>\$ 107,892</u>                     | <u>\$ 83,050</u>   | <u>\$ 1,148,501</u> |

See accompanying notes.

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

|                          | <b>Program<br/>Services</b> | <b>Management<br/>and<br/>General</b> | <b>Fundraising</b> | <b>Total</b>        |
|--------------------------|-----------------------------|---------------------------------------|--------------------|---------------------|
| 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              |
| Supplies                 | 48,056                      | 656                                   | 225                | 48,937              |
| Insurance                | 24,222                      | 2,177                                 | 525                | 26,924              |
| Transportation           | 22,442                      | -                                     | -                  | 22,442              |
| Miscellaneous            | 15,770                      | 1,409                                 | 1,831              | 19,010              |
| Professional fees        | 22,083                      | 1,560                                 | 1,717              | 25,360              |
| 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.**  
**STATEMENTS OF CASH FLOWS**  
**Years ended June 30, 2005 and 2004**

|  | <u>2005</u>              | <u>2004</u>              |
|--|--------------------------|--------------------------|
| Cash flows from operating activities:  |                          |                          |
| Change in net assets   | \$ 101,584               | \$ 123,788               |
| Adjustments to reconcile change in net assets<br>to net cash provided by operating activities: |                          |                          |
| Depreciation   | 41,200                   | 52,431                   |
| Unrealized and realized gains on investments   | (10,019)                 | (1,616)                  |
| Changes in current assets and liabilities:   |                          |                          |
| Grants receivable  | 23,629                   | 13,188                   |
| Pledges receivable   | -                        | 50,000                   |
| Prepaid expenses and other   | -                        | 5,447                    |
| Accounts payable   | 2,360                    | (7,098)                  |
| Net cash provided by operating activities  | <u>158,754</u>           | <u>236,140</u>           |
| Cash flows from investing activities:  |                          |                          |
| Proceeds from sale of investments  | 540,000                  | 81,022                   |
| Purchase of investments  | (344,000)                | (324,536)                |
| Purchase of property and equipment   | <u>(73,531)</u>          | <u>(131,446)</u>         |
| Net cash provided by (used in)<br>investing activities   | <u>122,469</u>           | <u>(374,960)</u>         |
| Net increase (decrease) in cash and cash equivalents   | 281,223                  | (138,820)                |
| Cash and cash equivalents - beginning of year  | <u>306,688</u>           | <u>445,508</u>           |
| Cash and cash equivalents - end of year  | <u><u>\$ 587,911</u></u> | <u><u>\$ 306,688</u></u> |

See accompanying notes.

**RENEWAL HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005 and 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.

**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, 2005 and 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.

**Reclassifications**

Certain reclassifications of 2004 amounts have been made to conform with 2005 presentation.

**RENEWAL HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005 and 2004**

**NOTE 2 – PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at June 30:

|                                    | <u>2005</u>       | <u>2004</u>       |
|------------------------------------|-------------------|-------------------|
| Land                               | \$ 203,879        | \$ 203,879        |
| Building and building improvements | 994,041           | 941,327           |
| Furniture and equipment            | <u>171,608</u>    | <u>150,792</u>    |
|                                    | 1,369,528         | 1,295,998         |
| Less accumulated depreciation      | <u>(384,664)</u>  | <u>(343,464)</u>  |
|                                    | <u>\$ 984,864</u> | <u>\$ 952,534</u> |

**NOTE 3 – INVESTMENTS**

Investments consists of the following at June 30:

|  | <u>2005</u>       | <u>2004</u>       |
|--|-------------------|-------------------|
| Privately held stock (at cost,<br>which approximates fair market value)  | \$ 8,000          | \$ 8,000          |
| Mutual fund  | 207,826           | 204,110           |
| Certificates of deposit<br>(rates ranging from 2.15% to 5.3%, maturity<br>dates ranging from September 12, 2005 through<br>September 30, 2019) | <u>423,410</u>    | <u>613,106</u>    |
|  | <u>\$ 639,236</u> | <u>\$ 825,216</u> |

Classified on the statement of financial position:

|            |                   |                   |
|------------|-------------------|-------------------|
| Current    | \$ 432,192        | \$ 439,368        |
| Noncurrent | <u>207,044</u>    | <u>385,848</u>    |
| Total      | <u>\$ 639,236</u> | <u>\$ 825,216</u> |

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

|  | <u>2005</u>      | <u>2004</u>      |
|--|------------------|------------------|
| Interest and dividend income                 | \$ 17,889        | \$ 8,619         |
| Net realized/unrealized gains on investments | <u>10,019</u>    | <u>1,616</u>     |
|  | <u>\$ 27,908</u> | <u>\$ 10,235</u> |

**RENEWAL HOUSE, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**June 30, 2005 and 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. The Organization made contributions of \$5,670 and \$8,200 for the years ended June 30, 2005 and 2004, respectively.

**NOTE 7 – NET ASSETS**

On June 30, 2000, the Organization's Executive Committee created an endowment fund in the amount of \$100,000 with unrestricted contributions. As of June 30, 2005 and 2004, the designated endowment totaled \$158,356 and \$136,191, respectively.

Temporarily restricted net assets include a contribution made during fiscal year 2005 for the expansion of the vocational program and totaled \$15,000 as of June 30, 2005.

**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.

## **SUPPLEMENTAL INFORMATION**

RENEWAL HOUSE, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
Year ended June 30, 2005

FEDERAL AWARDS

| Federal Grantor/Pass-Through Grantor<br>passed through United Way   | Program Name   | CFDA<br>Number   | Contract Number                  | Receiveable<br>June 30, 2004 | Cash<br>Receipts | Expenditures     | Receiveable<br>June 30, 2005 |
|---|--|------------------|----------------------------------|------------------------------|------------------|------------------|------------------------------|
| U.S. Department of Homeland Security,<br>passed through United Way  | Emergency Food and Shelter Program   | 97.024           | N/A                              | \$ -                         | \$ 11,268        | \$ 11,268        | \$ -                         |
| Total for U.S. Department of Homeland Security*   |  |                  |                                  | -                            | 11,268           | 11,268           | -                            |
| U.S. Department of Housing and Urban Development:<br>U.S. Department of Housing and Urban Development<br>U.S. Department of Housing and Urban Development | Supportive Housing Program<br>Supportive Housing Program                           | 14.235<br>14.235 | TN37B204004<br>TN37B304003       | 8,772<br>4,316               | 38,397<br>34,703 | 29,625<br>30,387 | -<br>-                       |
| Total for CFDA No. 14.235   |  |                  |                                  | 13,088                       | 73,100           | 60,012           | -                            |
| Passed through Nashville Metropolitan Development and Housing Agency  | Emergency Shelter Grants Program   | 14.231           | S98MC47004                       | -                            | 6,973            | 6,973            | -                            |
| Total for CFDA No. 14.231*  |  |                  |                                  | -                            | 6,973            | 6,973            | -                            |
| Total for U.S. Department of Housing and Urban Development  |  |                  |                                  | 13,088                       | 80,073           | 66,985           | -                            |
| U.S. Department of Health and Human Services passed through:<br>TN Department of Health   | Block Grants for Prevention and<br>Treatment of Substance Abuse                    | 93.959           | GR-05-16564-00                   | -                            | 236,130          | 257,360          | 21,230                       |
| TN Department of Health   | Block Grants for Prevention and<br>Treatment of Substance Abuse                    | 93.959           | GR-04-15716-00                   | 26,448                       | 26,448           | -                | -                            |
| Total for CFDA No. 93.959*  |  |                  |                                  | 26,448                       | 262,578          | 257,360          | 21,230                       |
| TN Department of Human Services<br>TN Department of Human Services  | Temporary Assistance for Needy Families<br>Temporary Assistance for Needy Families | 93.558<br>93.558 | GR-05-16128-00<br>GR-02-14289-02 | -<br>3,475                   | 110,908<br>3,475 | 111,861<br>-     | 953<br>-                     |
| Total for CFDA No. 93.558*  |  |                  |                                  | 3,475                        | 114,383          | 111,861          | 953                          |
| TN Department of Mental Health and Developmental Disabilities   | Block Grants for Community Mental Health Services                                  | 93.958           | GR-05-16233-00                   | -                            | 2,781            | 3,863            | 1,082                        |
| Total for CFDA No. 93.958*  |  |                  |                                  | -                            | 2,781            | 3,863            | 1,082                        |
| Total for U.S. Department of Health and Human Services  |  |                  |                                  | 29,923                       | 379,742          | 373,084          | 23,265                       |
| U.S. Department of Education passed through:<br>TN Department of Human Services   | Vocational Rehabilitation Grants to States   | 84.126           | GR-02-14088                      | 2,649                        | 27,794           | 27,471           | 2,326                        |
| Total for U.S. Department of Education*   |  |                  |                                  | 2,649                        | 27,794           | 27,471           | 2,326                        |
| Total Federal Awards  |  |                  |                                  | 45,660                       | 498,877          | 478,808          | 25,591                       |

RENEWAL HOUSE, INC  
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
(Continued from Page 12)  
Year ended June 30, 2005

STATE AWARDS

| Federal Grantor/Pass-Through Grantor                          | Program Name  | CFDA<br>Number | Contract Number | Receivable<br>June 30, 2004 | Cash<br>Receipts  | Expenditures      | Receivable<br>June 30, 2005 |
|---|---|----------------|-----------------|-----------------------------|-------------------|-------------------|-----------------------------|
| TN Department of Health                                       | Block Grants for Prevention and<br>Treatment of Substance Abuse | 93.959         | GR-05-16564-00# | \$ -                        | \$ 70,532         | \$ 76,965         | \$ 6,433                    |
| TN Department of Health                                       | Block Grants for Prevention and<br>Treatment of Substance Abuse | 93.959         | GR-04-15716-00# | 6,003                       | 6,003             | -                 | -                           |
| TN Department of Human Services                               | Temporary Assistance for Needy Families                         | 93.558         | GR-05-16128-00# | -                           | 205,972           | 207,741           | 1,769                       |
| TN Department of Human Services                               | Temporary Assistance for Needy Families                         | 93.558         | GR-02-14289-02# | 6,746                       | 6,746             | -                 | -                           |
| TN Department of Human Services                               | Vocational Rehabilitation Grants to States                      | 84.126         | GR-02-14088#    | 704                         | 7,510             | 7,748             | 942                         |
| TN Department of Mental Health and Developmental Disabilities |   | 93.958         | GR-05-16233-00# | -                           | 14,619            | 20,282            | 5,663                       |
| TN Department of Mental Health and Developmental Disabilities |   | N/A            | GR-04-15397-00  | 4,914                       | 4,914             | -                 | -                           |
| <b>Total State Awards</b>                                     |   |                |                 | <b>18,367</b>               | <b>316,296</b>    | <b>312,736</b>    | <b>14,807</b>               |
| <b>Total Federal and State Awards</b>                         |   |                |                 | <b>\$ 64,027</b>            | <b>\$ 815,173</b> | <b>\$ 791,544</b> | <b>\$ 40,398</b>            |

\* Cash grant receipts represent federal pass-through funds

# Represents state's portion of grant

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

NOTE 1 - BASIS OF ACCOUNTING

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



**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**

The Board of Directors  
Renewal House, Inc.

We have audited the financial statements of Renewal House, Inc. (a nonprofit organization) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 26, 2005. 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 Renewal House, Inc.'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 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 Renewal House, Inc.'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*.

This report is intended solely for the information and use of the finance committee, management and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Frasier, Dean & Howard, PLLC*

September 26, 2005