

RENEWAL HOUSE, INC.

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

June 30, 2006 and 2005

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FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2006 and 2005, 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, 2006 and 2005, 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 October 23, 2006, 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.

Frasier Dean & Howard, PLLC

October 23, 2006

RENEWAL HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
Years ended June 30, 2006 and 2005

	Assets	
	2006	2005
Current assets:		
Cash and cash equivalents	\$ 433,324	\$ 587,911
Investments	543,910	432,192
Grants receivable	115,696	40,398
Other	9,910	9,910
Total current assets	1,102,840	1,070,411
Property and equipment, net	1,142,358	984,864
Investments	137,078	207,044
Total assets	<u>\$ 2,382,276</u>	<u>\$ 2,262,319</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 10,308	\$ 8,768
Total current liabilities	10,308	8,768
Net assets:		
Unrestricted:		
Undesignated	2,200,699	2,080,195
Designated	156,269	158,356
	2,356,968	2,238,551
Temporarily restricted	15,000	15,000
Total net assets	2,371,968	2,253,551
Total liabilities and net assets	<u>\$ 2,382,276</u>	<u>\$ 2,262,319</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><u>\$ 2,356,968</u></u>	<u><u>\$ 15,000</u></u>	<u><u>\$ 2,371,968</u></u>

See accompanying notes.

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Federal and State grants	\$ 791,544	\$ -	\$ 791,544
Contributions	269,538	15,000	284,538
Special events, less direct benefit costs of \$23,102	55,408	-	55,408
Rental income	51,155	-	51,155
Program service fees	39,157	-	39,157
Investment income	27,908	-	27,908
Other	375	-	375
	<hr/>	<hr/>	<hr/>
Total public support and revenue	1,235,085	15,000	1,250,085
	<hr/>	<hr/>	<hr/>
Expenses:			
Program services	957,559	-	957,559
Management and general	107,892	-	107,892
Fundraising	83,050	-	83,050
	<hr/>	<hr/>	<hr/>
Total expenses	1,148,501	-	1,148,501
	<hr/>	<hr/>	<hr/>
Change in net assets	86,584	15,000	101,584
Net assets - beginning of year	2,151,967	-	2,151,967
	<hr/>	<hr/>	<hr/>
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 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.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended June 30, 2005

	Program Services	Management and General	Fundraising	Total
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.
STATEMENTS OF CASH FLOWS
Years ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Change in net assets	\$ 118,417	\$ 101,584
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,619	41,200
Unrealized and realized losses (gains) on investments	15,259	(10,019)
Changes in current assets and liabilities:		
Grants receivable	(75,298)	23,629
Accounts payable	1,540	2,360
Net cash provided by operating activities	<u>104,537</u>	<u>158,754</u>
Cash flows from investing activities:		
Proceeds from sale of investments	275,000	540,000
Purchase of investments	(332,011)	(344,000)
Purchase of property and equipment	<u>(202,113)</u>	<u>(73,531)</u>
Net cash (used in) provided by investing activities	<u>(259,124)</u>	<u>122,469</u>
Net (decrease) increase in cash and cash equivalents	(154,587)	281,223
Cash and cash equivalents - beginning of year	<u>587,911</u>	<u>306,688</u>
Cash and cash equivalents - end of year	<u><u>\$ 433,324</u></u>	<u><u>\$ 587,911</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2006 and 2005

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 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 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, 2006 and 2005

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 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 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 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, 2006 and 2005

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Land	\$ 203,879	\$ 203,879
Building and building improvements	1,192,720	994,041
Furniture and equipment	<u>175,042</u>	<u>171,608</u>
	1,571,641	1,369,528
Less accumulated depreciation	<u>(429,283)</u>	<u>(384,664)</u>
	<u>\$ 1,142,358</u>	<u>\$ 984,864</u>

NOTE 3 – INVESTMENTS

Investments consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Privately held stock (at cost, which approximates fair market value)	\$ 8,000	\$ 8,000
Mutual fund	208,309	207,826
Certificates of deposit (rates ranging from 4.0% to 5.3%, maturity dates ranging from July 18, 2006 through September 30, 2019)	<u>464,679</u>	<u>423,410</u>
	<u>\$ 680,988</u>	<u>\$ 639,236</u>

Classified on the statement of financial position:

Current	\$ 543,910	\$ 432,192
Noncurrent	<u>137,078</u>	<u>207,044</u>
Total	<u>\$ 680,988</u>	<u>\$ 639,236</u>

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

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 25,248	\$ 17,889
Net realized/unrealized (losses) gains on investments	<u>(15,259)</u>	<u>10,019</u>
	<u>\$ 9,989</u>	<u>\$ 27,908</u>

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2006 and 2005

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Organization's cash account balances at June 30, 2006 and 2005 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 substantially all employees of the Organization who have completed one year of service. The Organization made contributions of \$4,905 and \$5,670 for the years ended June 30, 2006 and 2005, respectively.

NOTE 7 – NET ASSETS

On June 30, 2000, the Organization's Executive Committee created the Serenity Fund in the amount of \$100,000 with unrestricted contributions. The purpose of this fund is to provide resources for the long-term needs of the Organization. As of June 30, 2006 and 2005, the Serenity Fund totaled \$156,269 and \$158,356, 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, 2006 and 2005.

NOTE 8 – RELATED PARTY

An advisory board member's investment team at a brokerage firm serves as the securities broker that manages some of 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, 2006

FEDERAL AWARDS

Federal Grantor/Pass-Through Grantor passed through United Way	Program Name	CFDA Number	Contract Number	Receivable June 30, 2005	Cash Receipts	Expenditures	Receivable June 30, 2006
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 U.S. Department of Housing and Urban Development U.S. Department of Housing and Urban Development	Supportive Housing Program Supportive Housing Program Supportive Housing Program	14.235 14.235 14.235	TN37B204004 TN37B304003 TN37B504009	- - -	24,260 24,318 2,888	24,260 26,079 7,012	- 1,761 4,124
Total for CFDA No. 14.235				-	51,466	57,351	5,885
U.S. Department of Housing and Urban Development	Community Development Block Grant	14.218	N/A	-	-	7,665	7,665
Total for CFDA No. 14.218*				-	-	7,665	7,665
Passed through Nashville Metropolitan Development and Housing Agency	Emergency Shelter Grants Program	14.231	S98MC47004	-	7,017	7,017	-
Total for CFDA No. 14.231*				-	7,017	7,017	-
Total for U.S. Department of Housing and Urban Development				-	58,483	72,033	13,550
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	GR-05-16564-00	21,230	21,230	-	-
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-06-027873-00	-	199,938	243,516	43,578
Total for CFDA No. 93.959*				21,230	221,168	243,516	43,578
TN Department of Human Services TN Department of Human Services	Temporary Assistance for Needy Families Temporary Assistance for Needy Families	93.558 93.558	GR-05-16128-00 GR-05-16128-01	953 -	953 111,167	- 112,118	- 951
Total for CFDA No. 93.558*				953	112,120	112,118	951
TN Department of Mental Health and Developmental Disabilities TN Department of Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services Block Grants for Community Mental Health Services	93.958 93.958	GR-05-16233-00 GR-06-17009-00	1,082 -	1,082 2,384	- 4,000	- 1,616
Total for CFDA No. 93.958*				1,082	3,466	4,000	1,616
Total for U.S. Department of Health and Human Services				23,265	336,754	359,634	46,145
U.S. Department of Education passed through: TN Department of Human Services	Vocational Rehabilitation Grants to States	84.126	GR-02-14088	2,326	29,038	31,726	5,014
Total for U.S. Department of Education*				2,326	29,038	31,726	5,014
Total Federal Awards				25,591	435,275	474,393	64,709

RENEWAL HOUSE, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
(Continued from Page 12)
Year ended June 30, 2006

STATE AWARDS

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2005	Cash Receipts	Expenditures	Receivable June 30, 2006
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-05-16564-00#	\$ 6,433	\$ 6,433	\$ -	\$ -
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	93.959	GR-06-027873-00#	-	53,965	65,727	11,762
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-00#	1,769	1,769	-	-
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-01#	-	197,631	208,220	10,589
TN Department of Human Services	Vocational Rehabilitation Grants to States	84.126	GR-02-14088#	942	7,858	8,586	1,670
TN Department of Mental Health and Developmental Disabilities	Early Childhood Intervention	93.958	GR-05-16233-00#	5,663	5,663	-	-
TN Department of Mental Health and Developmental Disabilities	Early Childhood Intervention	93.958	GR-06-17009-00#	-	12,515	19,754	7,239
TN Department of Children's Services	Family Preservation/ Addiction Recovery Program	N/A	GR-05-17561-00	-	28,866	44,984	16,118
TN Department of Children's Services	Technical Assistance	N/A	GR-06-17841-00	-	3,431	7,040	3,609
Total State Awards				14,807	318,131	354,311	50,987
Total Federal and State Awards				\$ 40,398	\$ 753,406	\$ 828,704	\$ 115,696

* 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.



FRASIER, DEAN & HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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**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, 2006, and have issued our report thereon dated October 23, 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 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

October 23, 2006