

Project Renewal, Inc.

Financial Statements
Year Ended June 30, 2009

Project Renewal, Inc.

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Project Renewal, Inc.

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Independent Auditors' Report

To the Board of Trustees
Project Renewal, Inc.
New York, New York

We have audited the accompanying statement of financial position of Project Renewal, Inc. as of June 30, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Project Renewal, Inc. Our responsibility is to express an opinion on these financial statements based on our audit. Information for the year ended June 30, 2008 is presented for comparative purposes only and was extracted from the financial statements of Project Renewal, Inc. for that year, on which we expressed an unqualified opinion, dated October 29, 2008.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Project Renewal, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Project Renewal, Inc. as of June 30, 2009 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.

BDO Seidman, LLP

December 1, 2009

Project Renewal, Inc.

Statement of Financial Position (with comparative totals for 2008)

<i>June 30,</i>	2009	2008
Assets (Note 10)		
Cash and cash equivalents	\$ 804,818	\$ 604,611
Investments at fair value (Note 4)	21,917	25,206
Accounts and grants receivable, net of allowance for doubtful accounts of \$92,240 in 2009 and \$114,877 in 2008	6,597,269	6,246,281
Pledges receivable, net of reserve for uncollected pledges of \$34,000 in 2009 and 2008 (Note 6)	521,723	518,738
Prepaid expenses	241,145	277,244
Security deposits and other assets, less allowance for doubtful accounts of \$16,175 in 2009 and 2008	378,842	401,012
Due from affiliates (Note 7)	1,721,134	2,349,761
Assets held for others (Note 3)	823,493	759,363
Fixed assets, net (Note 10)	5,995,307	6,491,128
Restricted sponsor reserve (Note 9)	9,690,634	9,055,066
Mortgage receivable (Note 8)	12,500,000	12,500,000
	\$39,296,282	\$39,228,410
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other liabilities	\$ 3,526,454	\$ 3,520,376
Accrued payroll and payroll related liabilities	1,486,922	1,197,807
Due to affiliate (Note 7)	1,297,442	893,182
Deferred revenue (Note 2)	4,768,511	5,498,620
Deferred rent	980,959	1,014,868
Loan payable (Note 13)	51,339	138,750
Mortgages payable (Note 12)	3,562,778	3,820,777
Sponsor reserve held in custody (Note 9)	9,690,634	9,705,066
Enforcement lien mortgage payable (Note 8)	12,499,999	12,499,999
Total liabilities	37,865,038	38,289,445
Commitments and contingencies (Notes 11, 16 and 17)		
Net assets (Notes 2 and 14):		
Unrestricted:		
Operating	323,439	322,412
Nonoperating	(328,561)	(414,688)
Total unrestricted	(5,122)	(92,276)
Temporarily restricted (Note 14)	1,436,366	1,031,241
Total net assets	1,431,244	938,965
	\$39,296,282	\$39,228,410

See accompanying notes to financial statements.

Project Renewal, Inc.

Statement of Activities (with comparative totals for 2008)

Year ended June 30,

	Unrestricted			Temporarily Restricted	Total	
	Operating	Nonoperating	Total unrestricted		2009	2008
Public support and revenue:						
Contributions	\$ 253,960	\$ -	\$ 253,960	\$1,118,150	\$ 1,372,110	\$ 1,554,572
Special events, net of expenses of \$100,314 and \$151,994, respectively	589,119	-	589,119	-	589,119	785,753
Grants and third-party revenue	37,325,179	518,389	37,843,568	-	37,843,568	35,718,326
Management fee income	25,550	-	25,550	-	25,550	25,550
Rental income	1,705,256	-	1,705,256	-	1,705,256	1,624,491
Miscellaneous income	116,674	-	116,674	-	116,674	146,411
Interest and dividend income	15,014	-	15,014	-	15,014	12,423
Net realized and unrealized losses on investments	(3,548)	-	(3,548)	-	(3,548)	(2,632)
Net assets released from restrictions (Note 15)	713,025	-	713,025	(713,025)	-	-
Total public support and revenue	40,740,229	518,389	41,258,618	405,125	41,663,743	39,864,894
Expenses:						
Program services:						
Outreach	913,656	-	913,656	-	913,656	920,178
Treatment and transitional housing	22,364,614	432,262	22,796,876	-	22,796,876	21,899,662
Medical services	4,218,287	-	4,218,287	-	4,218,287	3,230,691
Employment services	3,677,339	-	3,677,339	-	3,677,339	3,273,495
Permanent housing	4,441,424	-	4,441,424	-	4,441,424	3,997,236
Total program services	35,615,320	432,262	36,047,582	-	36,047,582	33,321,262
Supporting services:						
Management and general	4,425,579	-	4,425,579	-	4,425,579	4,923,954
Fundraising	698,303	-	698,303	-	698,303	680,979
Total supporting services	5,123,882	-	5,123,882	-	5,123,882	5,604,933
Total expenses	40,739,202	432,262	41,171,464	-	41,171,464	38,926,195
Change in net assets	1,027	86,127	87,154	405,125	492,279	938,699
Net assets (deficit), beginning of year	322,412	(414,688)	(92,276)	1,031,241	938,965	266
Net assets (deficit), end of year	\$ 323,439	\$(328,561)	\$ (5,122)	\$1,436,366	\$ 1,431,244	\$ 938,965

See accompanying notes to financial statements.

Project Renewal, Inc.

Statement of Functional Expenses (with comparative totals for 2008)

Year ended June 30,

	Program services						Supporting services			Total	
	Outreach	Treatment and Transitional Housing	Medical Services	Employment Services	Permanent Housing	Total	Management and general	Fundraising	Total	2009	2008
Salaries	\$444,549	\$12,948,650	\$2,086,701	\$1,251,237	\$1,493,908	\$18,225,045	\$2,139,548	\$308,040	\$2,447,588	\$20,672,633	18,991,284
Employee benefits and payroll related taxes	120,723	3,664,801	579,294	337,485	405,696	5,107,999	617,052	83,653	700,705	5,808,704	5,234,201
Pension	13,035	395,715	62,442	37,130	43,806	552,128	44,956	9,033	53,989	606,117	767,236
Total salaries and related expenses	578,307	17,009,166	2,728,437	1,625,852	1,943,410	23,885,172	2,801,556	400,726	3,202,282	27,087,454	24,992,721
Food and kitchen supplies	1,286	1,338,152	144	1,510,309	60,661	2,910,552	1,140	-	1,140	2,911,692	2,701,619
Client supplies	5,068	674,327	87,919	172,415	60,102	999,831	1,552	9,913	11,465	1,011,296	1,172,568
Lab fees	767	30,002	104,624	550	-	135,943	1,460	-	1,460	137,403	233,938
Office rent and occupancy expenses	217,428	789,309	22,633	117,824	2,047,078	3,194,272	234,356	-	234,356	3,428,628	2,840,285
Utilities	37,325	392,940	-	12,332	174,741	617,338	41,833	-	41,833	659,171	575,464
Facility maintenance	12,137	841,427	7,682	4,744	7,634	873,624	11,071	-	11,071	884,695	923,359
Telephone	11,647	162,901	17,700	7,904	14,690	214,842	16,441	13	16,454	231,296	223,585
Office expense	3,053	353,019	153,653	133,488	48,069	691,282	232,336	56,249	288,585	979,867	1,007,300
Staff travel	1,989	38,717	24,369	5,737	9,003	79,815	20,772	775	21,547	101,362	104,347
Printing	269	4,647	8,612	1,160	977	15,665	2,544	31,899	34,443	50,108	67,017
Professional services	-	120,338	182,970	600	27,990	331,898	537,746	156,909	694,655	1,026,553	1,108,319
Temporary help	21,252	136,297	41,016	-	540	199,105	40,640	776	41,416	240,521	653,983
Vehicle expense	9,356	75,701	101,006	29,722	-	215,785	36,963	-	36,963	252,748	248,884
Insurance	2,089	213,810	98,821	21,371	-	336,091	6,686	-	6,686	342,777	448,107
Recruiting	2,388	16,740	8,608	3,380	-	31,116	5,481	-	5,481	36,597	110,139
Bad debts	-	-	10,000	-	32,417	42,417	-	-	-	42,417	87,780
Data processing	-	-	-	-	-	-	119,488	-	119,488	119,488	105,588
Contribution to affiliates	-	-	429,006	-	-	429,006	30	-	30	429,036	1,950
Interest expense	-	64,429	-	-	-	64,429	6,943	-	6,943	71,372	146,894
Depreciation and amortization	9,192	77,759	187,792	11,062	7,678	293,483	243,930	659	244,589	538,072	545,156
Miscellaneous expenses	103	24,933	3,295	18,889	6,434	53,654	62,611	40,384	102,995	156,649	171,892
Total operating expenses	913,656	22,364,614	4,218,287	3,677,339	4,441,424	35,615,320	4,425,579	698,303	5,123,882	40,739,202	38,470,895
Interest expense	-	218,011	-	-	-	218,011	-	-	-	218,011	241,049
Depreciation and amortization	-	214,251	-	-	-	214,251	-	-	-	214,251	214,251
Total nonoperating expenses	-	432,262	-	-	-	432,262	-	-	-	432,262	455,300
Total expenses	\$913,656	\$22,796,876	\$4,218,287	\$3,677,339	\$4,441,424	\$36,047,582	\$4,425,579	\$698,303	\$5,123,882	\$41,171,464	\$38,926,195

See accompanying notes to financial statements.

Project Renewal, Inc.

Statement of Cash Flows (with comparative totals for 2008)

<i>Year ended June 30,</i>	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ 492,279	\$ 938,699
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	752,323	759,407
Provision for doubtful accounts	42,417	87,779
Unrealized loss on investments	3,289	1,184
Realized loss from investments	259	1,449
Donated investments	(9,808)	(103,989)
(Increase) decrease in assets:		
Accounts and grants receivable	(393,405)	(1,107,068)
Pledges receivable	(2,985)	(217,674)
Prepaid expenses	36,099	(17,596)
Security deposits and other assets	22,170	(94,521)
Due from affiliates	628,627	(387,902)
Assets held for others	(64,130)	94,196
Increase (decrease) in liabilities:		
Restricted sponsor reserve	(650,000)	505,548
Accounts payable and other liabilities	6,078	(347,201)
Accrued payroll and related liabilities	289,115	(358,057)
Due to affiliates	404,260	635,570
Due to governmental agencies	-	(31,486)
Deferred revenue	(730,109)	996,804
Deferred rent	(33,909)	(8,992)
Net cash provided by operating activities	792,570	1,346,150
Cash flows from investing activities:		
Purchase of fixed assets	(256,502)	(252,070)
Purchase of investments	-	(26,796)
Proceeds from sale of investments	9,549	129,336
Net cash used in investing activities	(246,953)	(149,530)
Cash flows from financing activities:		
Payments of line of credit	-	(500,000)
Payments of loan payable	(87,411)	(88,112)
Payments of mortgage payable	(257,999)	(235,313)
Net cash used in financing activities	(345,410)	(823,425)
Net increase in cash and cash equivalents	200,207	373,195
Cash and cash equivalents, beginning of year	604,611	231,416
Cash and cash equivalents, end of year	\$ 804,818	\$ 604,611
Supplemental disclosure of cash flow information:		
Interest paid	\$ 289,384	\$ 387,943

See accompanying notes to financial statements.

Project Renewal, Inc.

Notes to Financial Statements

- 1. Nature of Activities**

Project Renewal, Inc. (the “Corporation”) operates facilities in the City of New York that offer a variety of services in accessible settings to homeless and formerly homeless people suffering from mental illness, alcoholism, and substance abuse. The Corporation receives substantial grant awards from various Federal, New York State and City agencies.

- 2. Summary of Significant Accounting Policies**

 - (a) Basis of Presentation*

The financial statements of the Corporation have been prepared on the accrual basis. In the statement of financial position, assets and liabilities are presented in order of liquidity or conversion to cash and their maturity resulting in the use of cash, respectively.

 - (b) Financial Statement Presentation*

The classification of a not-for-profit organization’s net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

 - (i) Permanently Restricted* – Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Corporation.

Project Renewal, Inc.

Notes to Financial Statements

- (ii) **Temporarily Restricted** – Net assets resulting from contributions and other inflows of assets whose use by the Corporation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities.
- (iii) **Unrestricted** – The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

(c) *Cash and Cash Equivalents*

The Corporation considers all highly liquid instruments purchased with a maturity of three months or less and all money market accounts to be cash equivalents.

(d) *Contributions and Pledges*

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with purpose or time restrictions (defined by management as unrestricted amount due in more than one year) are reported as increases in temporarily restricted net assets. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Project Renewal, Inc.

Notes to Financial Statements

Unconditional promises to give are recognized as contribution revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received and are classified as either unrestricted, temporarily restricted, or permanently restricted support. Promises to give are recorded at net realizable value if expected to be collected in one year. Unconditional promises to give that are expected to be collected in the future years are recorded at the present value of these estimated future cash flows.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at the estimated fair value.

(e) *Investments at Fair Value*

Marketable debt and equity securities are adjusted to their fair market value at the statement of financial position date, resulting in either an unrealized gain or loss. Unrealized gains and losses are included in the statement of activities.

(f) *Fixed Assets*

Equipment acquired under terms of grant provisions, title to which reverts to the grantor at the termination of the contract, are recorded as an asset in the unrestricted fund.

Deferred revenue equal to the cost of the asset is recorded at the time of purchase and is amortized over the useful life of the related asset.

Project Renewal, Inc.

Notes to Financial Statements

The Corporation has established a \$1,000 threshold above which assets are capitalized. Building and equipment are carried at cost less accumulated depreciation. Depreciation is provided under the straight-line method over the estimated useful lives of the assets as follows:

Buildings	25-30 years
Equipment	4-7 years
Mortgage acquisition costs	25 years

(g) *Renovation Costs*

Major renovations of leased and owned facilities are carried at cost less amortization to date. Amortization is provided under the straight-line method based over the term of the lease or the useful life of the renovation, whichever is less.

(h) *Recognition of Revenue*

Grant revenue is recognized in amounts equal to expenses incurred. Upon termination, the unexpended cash funds received under the terms of the grant provisions revert to the grantor. Third-party revenue is recognized when earned.

(i) *Contract Disallowances*

The contractual agreements with various funding sources include provisions for claims and program audits in subsequent years. These audits may result in disallowance and repayment of costs previously reimbursed by the funding sources. Management estimates potential disallowances based on past experiences. Accordingly, management has established a contingency reserve to cover the cost of future disallowances, if any. At June 30, 2009, the contingency reserve amounted to \$390,107 and is reflected in accounts payable and other liabilities in the accompanying statement of financial position.

Project Renewal, Inc.

Notes to Financial Statements

(j) *Income Taxes*

The Corporation was incorporated in the State of New York and is exempt from Federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has made no provision for income taxes in the accompanying financial statements. In addition, the Corporation has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2009.

(k) *Use of Estimates*

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) *Comparative Financial Information*

The financial statements include certain prior year summarized comparative information. Accordingly, such information should be read in conjunction with the prior year financial statements from which the summarized information was derived. With respect to the statement of activities, the prior year information is not presented by net asset class. With respect to the statement of functional expenses, the prior year expenses by expense classification are presented in total rather than by functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States.

Project Renewal, Inc.

Notes to Financial Statements

(m) *Nonoperating Revenue and Expenses*

Nonoperating revenue and expenses include all transactions such as government grant income, depreciation and interest expense relating to the residential care facility for mentally ill individuals and mortgage as described in Note 11. The transactions recorded represent the pass-through financing from New York State of the mortgage payments as described in Note 11 and the New York State financing of the project.

(n) *Concentration of Credit Risk*

Financial instruments which potentially subject the Corporation to concentration of credit risk consists primarily of temporary cash investments. At various times during the year, the Corporation had cash deposits at financial institutions which exceeded the FDIC insurance limit.

(o) *Functional Allocation of Expenses*

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

(p) *Reclassifications*

Certain prior year balances have been reclassified to conform with the current year's presentation.

Project Renewal, Inc.

Notes to Financial Statements

(q) *Fair Value Measurements*

On July 1, 2008, the Corporation adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements”. This statement defines fair value and establishes a hierarchy for inputs used in measuring fair value that maximized the use of observable inputs and minimized the use of unobservable inputs, requiring that inputs that are most observable be used when available. Observable inputs are inputs that market participants operating within the same marketplace as the Corporation would use in pricing the Corporation’s asset or liability based on independently derived and observable market data. Unobservable inputs are inputs that can not be sourced from a broad active market in which assets or liabilities identical or similar to those of the Corporation are traded. The Corporation estimates the price of any assets for which there are only unobservable inputs by using assumptions that market participants that have investments in the same or similar assets would use as determined by the money managers for each investment based on best information available in the circumstances. The input hierarchy is broken down into three levels based on the degree to which the exit price is independently observable or determinable as follows:

Level 1 – Valuation based on quoted market prices in active markets for identical assets or liabilities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment. Examples include certain mutual funds and equity that are actively traded on a major exchange.

Project Renewal, Inc.

Notes to Financial Statements

Level 2 - Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. Most debt securities, preferred stocks, certain equity securities, short-term investments and derivatives are model priced using observable inputs and are classified with Level 2.

Level 3 – Valuation based on inputs that are unobservable and reflect management’s best estimate of what market participants would use as fair value. Examples include limited partnerships and private equity investments, and limited liability investment companies.

(r) *Net Asset Classification*

The FASB issued Staff Position SFAS No. 117-1, “Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), and Enhanced Disclosures for All Endowment Funds” (“FSP No. 117-1”). This statement is intended to improve the quality and consistency of financial reporting of endowments held by not-for-profit organizations. This statement provides guidance on classifying the net assets (equity) associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of UPMIFA, which serves as a model act for states to modernize their laws governing donor-restricted endowment funds. The statement is effective for all fiscal years ended after December 15, 2008. Effective July 1, 2008, the Corporation adopted FSP No. 117-1. As of June 30, 2009, the Corporation did not have any endowments.

Project Renewal, Inc.

Notes to Financial Statements

(s) *Uncertainty in Income Taxes*

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), was issued in July 2006 and was effective for fiscal years beginning after December 15, 2006. Under FIN 48, an organization must recognize the tax benefit associated with tax positions taken for tax return purposes when it is more-likely-than-not the position will be sustained upon examination by a taxing authority. In February 2008, the FASB issued Staff Position No. 48-2, and subsequently Staff Position No. 48-3 in December 2008, which defers the effective date of FIN 48 for certain nonpublic enterprises as defined in SFAS No. 109, "Accounting for Income Taxes", until fiscal years beginning after December 15, 2008. Under SFAS No. 109, a nonpublic enterprise is defined as "an enterprise other than one (a) whose debt or equity securities are traded in a public market, including those traded on a stock exchange or in the over-the-counter market, (b) that is a conduit bond obligor for conduit debt securities that are traded in a public market, or (c) whose financial statements are filed with a regulatory agency in preparation for the sale of any class of securities".

As of June 30, 2009, the Corporation met the definition of a nonpublic enterprise as defined under SFAS No. 109 and has elected to defer the adoption of FIN 48 until fiscal year 2010.

As a result, the accounting policy for evaluating uncertain tax positions continues to be based on SFAS No. 5, "Accounting for Contingencies".

3. Assets Held for Others

Assets held for others consist of custodial and other funds required to be maintained in separate accounts for specific purposes or future periods. The corresponding liability is reflected in accounts payable and deferred revenue.

Project Renewal, Inc.

Notes to Financial Statements

4. Investments at Fair Value

The following is a summary of investments at fair value and cost at June 30, 2009.

June 30, 2009

	Fair value	Cost
Mutual funds	\$21,917	\$10,000

At June 30, 2009, the Corporation deemed that all securities which were in an unrealized loss position were temporarily impaired. Positive evidence considered in reaching the Corporation's conclusion that the investments in an unrealized loss position were not other than temporarily impaired consisted of:

1. there were no specific events which caused concerns;
2. the Corporation's ability and intent to retain the investments for a sufficient amount of time allowed an anticipated recovery in value; and
3. the Corporation also deemed that all changes in market value were considered normal in relation to overall fluctuations in interest rates.

The fair market value of the investments detailed above is determined by reference to market quotations at June 30, 2009. The investments are managed by professional investment advisors and managers. In addition to the above, the investment portfolio included \$10,867 of cash equivalents at June 30, 2009.

The following table presents the Corporation's assets that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy.

Project Renewal, Inc.

Notes to Financial Statements

Fair value measurements by level at June 30, 2009.

	Total	Level 1	Level 2	Level 3
Investments at fair value:				
Mutual funds	\$21,917	\$21,917	\$ -	\$ -

**5. Accounts and
Grants
Receivable, Net**

Accounts and grants receivable, net at June 30, 2009 consist of the following:

Accounts receivable	\$ 590,663
Grants receivable:	
Federal	1,693,593
New York State	697,743
New York City	3,707,510
	6,689,509
Less: Allowance for doubtful accounts	(92,240)
Accounts and grants receivable, net	\$6,597,269

Accounts receivable represent amounts due to the Corporation from other not-for-profit agencies and private companies for services provided by one of the Corporation's social purpose ventures that are part of employment services.

Project Renewal, Inc.

Notes to Financial Statements

6. **Pledges Receivable** The net present value of pledges receivable at June 30, 2009 is as follows:

June 30, 2009

Total pledges receivable	\$555,723
Reserve for uncollectible pledges	(34,000)
Pledges receivable (net)	\$521,723

Amounts due in:

Less than one year	\$555,723
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7. **Related Party Transactions**

The Corporation is related to all of the following entities through either a common sole member or through common management. Below is a description of the nature of the transaction with these affiliated entities.

Project Renewal Fund Inc. is a not-for-profit entity that is the sole member of Project Renewal and each of the related non-profit entities.

The Corporation shares certain common facilities and management personnel with Manhattan Bowery Management Corporation ("MBMC"), a not-for-profit entity. During the year ended June 30, 2009, the Corporation charged MBMC a management fee of \$24,000 for such expenses.

MRG Partners, L.P. ("MRG") was formed for the purpose of acquiring, rehabilitating and operating the Holland House, a low-income rental housing project. The general partner is Starting Homes, Inc., a for-profit corporation controlled by a housing development fund corporation that is owned by the Corporation. See Notes 7 and 8 for a description of transactions with MRG.

St. Nicholas House L.P. ("St. Nicholas") was formed to acquire, rehabilitate and operate the St. Nicholas House project for occupancy by low income tenants.

Project Renewal, Inc.

Notes to Financial Statements

North Star Housing, Inc. (“NSH”) is a not-for-profit entity organized to develop and manage affordable housing.

Amounts due from/(to) affiliates at June 30, 2009 are non-interest bearing, payable on demand, and consist of the following:

Related party – nature of amount due from (to):	
Project Renewal Fund – cash advances	\$ 317,525
MBMC – shared costs, cash advance	(972,162)
NSH – management fee, cash advances and miscellaneous expenses	393,384
MRG – cash advances for development and operating costs	1,010,225
St. Nicholas	(325,280)
Total	\$ 423,692

Management believes that these transactions were conducted at arms length.

8. Mortgage Receivable and Enforcement Note Payable

The Corporation has a security interest of \$12,499,999 in the Holland Hotel building which is subordinate to an enforcement lien mortgage held by the City of New York. Principal and interest, at the rate of 5.97% per annum, are not due and payable until December 30, 2026. The agreement also stipulates that the enforcement lien mortgage may be forgiven if the Corporation operates certain social service programs at the Holland Hotel site during the term of the agreement.

Project Renewal, Inc.

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On December 30, 1993, the Corporation transferred the Holland Hotel building to the Holland Hotel Housing Development Fund Corp., an affiliate, for a purchase money mortgage of \$12,500,000. The property was then transferred to MRG Partners, L.P., which assumed the mortgage. The mortgage receivable bears interest at 5.97% per annum, compounded semi-annually, and both principal and interest mature on December 30, 2026. It is anticipated that some interest payments will be made prior to the maturity date.

As of June 30, 2009, MRG Partners L.P. has paid approximately \$3.7 million of interest which has been deposited into a Restricted Sponsor Reserve account maintained by the Corporation. The Corporation records the interest received from MRG Partners L.P. as a liability until the enforcement lien mortgage held by the City of New York is either paid or forgiven.

9. Sponsor Reserve

As of June 30, 2009, the Corporation has received approximately \$8.9 million from MRG Partners, L.P., which includes interest received on the purchase money mortgage (Note 8). In addition, the Corporation is entitled to an escrow account with a balance of \$803,130 at June 30, 2009. This escrow account is held by New York City Housing Development Corporation. According to the terms of the agreement, these funds are held in custody by the Corporation on behalf of MRG Partners, L.P. The funds may only be used for specific purposes as stated in the agreement.

Project Renewal, Inc.

Notes to Financial Statements

- 10. Fixed Assets, Net** Fixed assets, net at June 30, 2009 consists of the following:

	Cost	Accumulated depreciation	Net
Land	\$ 2,272,210	\$ -	\$2,272,210
Building	5,357,492	4,175,744	1,181,748
Equipment	4,892,153	3,853,857	1,038,296
Renovation costs	1,957,088	484,705	1,472,383
Mortgage acquisition costs	127,795	97,125	30,670
	<u>\$14,606,738</u>	<u>\$8,611,431</u>	<u>\$5,995,307</u>

- 11. Line of Credit** The Corporation renewed a \$500,000 line of credit with a financial institution maturing on January 4, 2010. Interest payments on all unpaid principal are due on a monthly basis. Interest is charged at the bank's prime rate (3.25% at June 30, 2009) plus 1%. The line of credit is collateralized by all personal property of the Corporation, MBMC and Project Renewal Fund. There were no outstanding borrowings at June 30, 2009.

- 12. Mortgages Payable** On November 7, 1990, the Corporation entered into a mortgage agreement which constituted the permanent financing of the construction of a residential care facility for mentally ill individuals.

In accordance with the terms of the agreement, the mortgage is payable in semiannual installments of \$240,030 consisting of principal and interest at the rate of 9.42% per annum through May 2015. The mortgage is secured by the building and related personal property.

Project Renewal, Inc.

Notes to Financial Statements

On January 4, 2007, the Corporation entered into a mortgage agreement with a bank for the purpose of acquiring an undeveloped parcel of property located in the Bronx, New York, to be used for future programs. The mortgage, which consists of a non-restoring line of credit, is secured by both the acquired property and another property owned by the Corporation. The loan which has a principal balance of \$1,400,000 and is due July 1, 2010 requires monthly payments of interest at the bank's prime rate plus .5%.

It is the intention of the Corporation to obtain funding for the development of the property, and refinancing of the debt incurred in its acquisition prior to the due date of the mortgage.

Mortgages payable mature as follows:

<i>Year ending June 30,</i>	
2010	\$ 480,060
2011	480,060
2012	480,060
2013	480,060
Thereafter	960,121
	<hr/> 2,880,361
Less: Interest payments	(717,583)
	<hr/> \$2,162,778

13. Loan Payable

On February 20, 2007, the Corporation entered into a \$254,651 loan agreement with its landlord for the purpose of financing improvements to its administrative offices.

In accordance with the terms of the agreement, the loan is payable in monthly installments of \$9,263 until February 2008 and monthly installments of \$7,863 consisting of principal and interest at the rate of 7.0% per annum through January 2010.

Project Renewal, Inc.

Notes to Financial Statements

The loan payable matures as follows:

<i>Year ending June 30,</i>	
2010	\$52,499
Less: Interest payments	1,160
	<u>\$51,339</u>

14. Temporarily Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2009:

Outreach	\$ 393
Treatment and transitional housing	96,881
Medical	365,629
Employment services	694,766
Permanent housing	278,697
	<u>\$1,436,366</u>

15. Net Assets Released from Restrictions

Net assets were released from restrictions during the year ended June 30, 2009 by incurring expenses satisfying the restricted purposes as follows:

Outreach	\$ 1,361
Treatment and transitional housing	17,124
Medical	259,126
Employment services	363,273
Permanent housing	72,141
	<u>\$713,025</u>

Project Renewal, Inc.

Notes to Financial Statements

16. Pension Plan

The Corporation has adopted a defined contribution plan under Section 403(b) of the Internal Revenue Code. The Corporation does not make any matching contributions under this plan.

In addition, the Corporation has a defined contribution plan under Section 401(a) of the Internal Revenue Code. Under this plan, the Corporation makes discretionary contributions for all eligible employees. For the year ended June 30, 2009, pension expense under this plan was \$606,117.

17. Commitments and Contingencies

(a) Lease Commitments

The Corporation entered into an agreement for rental of office space at 200 Varick Street, New York under a lease expiring June 30, 2020 with an option to extend the lease for an additional 5 years. In addition, the Corporation leases apartments which are subleased to tenants in the supportive housing program and storage space. Rent and occupancy expense, related to the above leases, for the year ended June 30, 2009 was \$3,428,628.

Minimum annual rentals related to the above leases for the next five years are as follows:

<i>June 30,</i>	
2010	\$1,806,249
2011	838,137
2012	635,753
2013	657,895
2014	683,580
Thereafter	4,260,696
Total	\$8,882,310

Project Renewal, Inc.

Notes to Financial Statements

(b) *Contingencies*

The Corporation is a defendant in several lawsuits that have arisen in the ordinary course of business. It is management's belief that any settlements that arise from these suits will be within the limits of the Corporation's insurance policies. Therefore, no provision has been made in the accompanying financial statements.

- 18. Subsequent Events** The Corporation's management has performed subsequent events procedures through December 1, 2009, which is the date the financial statements were available to be issued and there were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein.