

AUDITED FINANCIAL STATEMENTS

SOJOURNER HOUSE, INC.

PITTSBURGH, PENNSYLVANIA

JUNE 30, 2006 AND 2005

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EPSTEIN, TABOR & SCHORR
CERTIFIED PUBLIC ACCOUNTANTS
PITTSBURGH, PA.

To the Board of Directors
Sojourner House, Inc.
Pittsburgh, Pennsylvania

Independent Auditor's Report

We have audited the accompanying statements of financial position of Sojourner 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 Sojourner'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. 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 Sojourner House, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Epstein, Tabor & Schorr

Certified Public Accountants

Pittsburgh, Pennsylvania
November 9, 2006

**SOJOURNER HOUSE, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2006 AND 2005**

ASSETS

	2006	2005
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 269,043	\$ 308,631
Investments - Note (B)	170,043	159,387
Contractual Revenue Receivable - Note (C)	203,250	197,429
Other Receivables	31,531	15,318
Prepaid Expenses	5,911	4,163
TOTAL CURRENT ASSETS	\$ 679,778	\$ 684,928
REAL ESTATE AND EQUIPMENT - AT COST		
Land	\$ 50,000	\$ 50,000
Building and Building Improvements	876,952	867,346
Office Furniture, Fixtures and Equipment	129,427	106,071
Apartment Furnishings and Playcare Equipment	71,772	71,282
Vehicles	35,957	35,957
TOTAL REAL ESTATE AND EQUIPMENT	\$ 1,164,108	\$ 1,130,656
Less: Accumulated Depreciation	553,607	504,942
NET REAL ESTATE AND EQUIPMENT	\$ 610,501	\$ 625,714
TOTAL ASSETS	\$ 1,290,279	\$ 1,310,642

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Current Portion of Long-Term Debt - Note (D)	\$ 12,281	\$ 8,333
Revenue Raised on Behalf of Others - Note (E)	90,332	126,502
Accounts Payable and Accrued Expenses	34,339	35,202
Client Savings and Security Deposits	2,675	7,037
TOTAL CURRENT LIABILITIES	\$ 139,627	\$ 177,074
LONG-TERM LIABILITIES		
Noncurrent Portion of Mortgages Payable - Note (D)	\$ 274,981	\$ 283,314
Capital Lease Obligation - Note (D)	13,818	-
TOTAL LONG-TERM LIABILITIES	\$ 288,799	\$ 283,314
TOTAL LIABILITIES	\$ 428,426	\$ 460,388
NET ASSETS		
Unrestricted	\$ 861,853	\$ 850,254
TOTAL LIABILITIES AND NET ASSETS	\$ 1,290,279	\$ 1,310,642

The accompanying notes are an integral part of the financial statements.

**SOJOURNER HOUSE, INC.
STATEMENTS OF ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
REVENUE AND OTHER SUPPORT		
Contractual Revenue - Note (F)	\$ 767,277	\$ 733,701
Less: Charity Care	<u>7,909</u>	<u>11,411</u>
Net Contractual Revenue	\$ 759,368	\$ 722,290
Grants	13,500	20,000
Church Congregation Donations	24,275	26,259
Other Donations	56,108	73,916
Investment Income	13,767	7,037
Realized Gain (Loss) on Sale of Investments	721	830
Unrealized Gain (Loss) on Investments	(658)	8,487
Miscellaneous	2,848	554
Special Events	10,758	8,679
Net Assets Released from Restrictions: Satisfaction of Program Restrictions	<u>-</u>	<u>-</u>
TOTAL REVENUE AND OTHER SUPPORT	\$ <u>880,687</u>	\$ <u>868,052</u>
PROGRAM EXPENSES		
Client Services	\$ 669,686	\$ 618,272
Administration	190,232	176,750
Fundraising	<u>9,170</u>	<u>27,782</u>
TOTAL PROGRAM EXPENSES	\$ <u>869,088</u>	\$ <u>822,804</u>
CHANGES IN NET ASSETS	\$ 11,599	\$ 45,248
Net Assets - July 1	<u>850,254</u>	<u>805,006</u>
NET ASSETS - JUNE 30	\$ <u><u>861,853</u></u>	\$ <u><u>850,254</u></u>

The accompanying notes are an integral part of the financial statements.

SOJOURNER HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	<u>CLIENT SERVICES</u>	<u>ADMINI- STRATION</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Salaries	\$ 385,068	\$ 72,764	\$ -	\$ 457,832
Fringe Benefits	48,134	7,205	-	55,339
Payroll Taxes	<u>54,279</u>	<u>8,125</u>	<u>-</u>	<u>62,404</u>
TOTAL PERSONNEL EXPENSES	\$ <u>487,481</u>	\$ <u>88,094</u>	\$ <u>-</u>	\$ <u>575,575</u>
OPERATING EXPENSES				
Accounting and Payroll Services	\$ -	\$ 45,904	\$ -	\$ 45,904
Advertising	-	1,702	-	1,702
Bank Fees	-	1,009	-	1,009
Board Expenses	-	3,209	-	3,209
Building Repairs and Maintenance	20,866	-	-	20,866
Client Activities	4,472	-	-	4,472
Client Transportation	2,478	-	-	2,478
Computer Technician	-	7,655	-	7,655
Consulting Fees	-	-	-	-
Dues and Subscriptions	-	2,203	-	2,203
Equipment Rental	-	2,809	-	2,809
Equipment Repairs and Maintenance	6,652	-	-	6,652
Food and Clothing	5,598	-	-	5,598
Housekeeping	14,920	-	-	14,920
Insurance	11,860	-	-	11,860
Legal Fees	-	50	-	50
Office Supplies	8,159	4,077	1,838	14,074
Other	137	6,657	-	6,794
Other Client Services	18,149	-	-	18,149
Postage and Printing	-	5,462	1,172	6,634
Rehabilitation Supplies	4,490	-	-	4,490
Rent and Taxes	-	-	-	-
Special Events	-	-	6,160	6,160
Staff Development	4,118	1,258	-	5,376
Staff Travel	831	1,233	-	2,064
Telephone	6,827	5,517	-	12,344
Utilities	26,508	-	-	26,508
Vehicle Maintenance	<u>10,868</u>	<u>-</u>	<u>-</u>	<u>10,868</u>
TOTAL OPERATING EXPENSES	\$ <u>146,933</u>	\$ <u>88,745</u>	\$ <u>9,170</u>	\$ <u>244,848</u>
DEPRECIATION	\$ <u>35,272</u>	\$ <u>13,393</u>	\$ <u>-</u>	\$ <u>48,665</u>
TOTAL EXPENSES	\$ <u>669,686</u>	\$ <u>190,232</u>	\$ <u>9,170</u>	\$ <u>869,088</u>

The accompanying notes are an integral part of the financial statements.

SOJOURNER HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>CLIENT SERVICES</u>	<u>ADMINI- STRATION</u>	<u>FUND- RAISING</u>	<u>TOTAL</u>
PERSONNEL EXPENSES				
Salaries	\$ 362,313	\$ 65,399	\$ -	\$ 427,712
Fringe Benefits	39,340	6,789	-	46,129
Payroll Taxes	<u>44,363</u>	<u>7,655</u>	<u>-</u>	<u>52,018</u>
TOTAL PERSONNEL EXPENSES	\$ <u>446,016</u>	\$ <u>79,843</u>	\$ <u>-</u>	\$ <u>525,859</u>
OPERATING EXPENSES				
Accounting and Payroll Services	\$ -	\$ 44,491	\$ -	\$ 44,491
Advertising	-	2,406	-	2,406
Bank Fees	-	1,264	-	1,264
Board Expenses	-	2,159	-	2,159
Building Repairs and Maintenance	19,598	-	-	19,598
Client Activities	4,459	-	-	4,459
Client Transportation	2,557	-	-	2,557
Computer Technician	-	-	-	-
Consulting Fees	-	-	14,595	14,595
Dues and Subscriptions	-	2,268	-	2,268
Equipment Rental	-	6,977	-	6,977
Equipment Repairs and Maintenance	5,400	-	-	5,400
Food and Clothing	1,577	-	-	1,577
Housekeeping	8,073	-	-	8,073
Insurance	16,403	-	-	16,403
Legal Fees	-	-	-	-
Office Supplies	9,399	5,584	4,671	19,654
Other	4,825	11,256	-	16,081
Other Client Services	15,319	-	-	15,319
Postage and Printing	-	2,797	1,189	3,986
Rehabilitation Supplies	2,477	-	-	2,477
Rent and Taxes	2,880	-	-	2,880
Special Events	-	-	7,327	7,327
Staff Development	4,702	1,364	-	6,066
Staff Travel	220	1,058	-	1,278
Telephone	7,726	5,007	-	12,733
Utilities	21,080	-	-	21,080
Vehicle Maintenance	<u>3,696</u>	<u>-</u>	<u>-</u>	<u>3,696</u>
TOTAL OPERATING EXPENSES	\$ <u>130,391</u>	\$ <u>86,631</u>	\$ <u>27,782</u>	\$ <u>244,804</u>
DEPRECIATION	\$ <u>41,865</u>	\$ <u>10,276</u>	\$ <u>-</u>	\$ <u>52,141</u>
TOTAL EXPENSES	\$ <u><u>618,272</u></u>	\$ <u><u>176,750</u></u>	\$ <u><u>27,782</u></u>	\$ <u><u>822,804</u></u>

The accompanying notes are an integral part of the financial statements.

**SOJOURNER HOUSE, INC.
STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 11,599	\$ 45,248
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	48,665	52,141
Realized Gain on Sale of Investments	(721)	(830)
Unrealized (Gain) Loss on Investments	658	(8,487)
CHANGES IN ASSETS - (INCREASE) DECREASE		
Contractual Revenue Receivable	(5,821)	(38,288)
Other Receivables	(16,213)	32,056
Prepaid Expenses	(1,748)	(900)
CHANGES IN LIABILITIES - INCREASE (DECREASE)		
Accounts Payable	(863)	(18,991)
Client Savings and Security Deposits	(4,362)	(1,926)
Revenue Raised on Behalf of Others	(36,170)	99,946
NET CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	\$ (4,976)	\$ 159,969
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of Building Improvements and Office Equipment	\$ (12,725)	\$ (32,128)
Acquisition of Investments, Including Reinvested Dividends	(50,341)	(5,694)
Proceeds from Sale of Investments	39,748	1,964
NET CASH USED FOR INVESTING ACTIVITIES	\$ (23,318)	\$ (35,858)
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage Principal Payments	\$ (8,333)	\$ (8,333)
Payments on Capital Lease Obligation	(2,961)	-
NET CASH USED FOR FINANCING ACTIVITIES	\$ (11,294)	\$ (8,333)
NET (DECREASE) INCREASE IN CASH	\$ (39,588)	\$ 115,778
Cash and Cash Equivalents - July 1	308,631	192,853
CASH AND CASH EQUIVALENTS - JUNE 30	\$ 269,043	\$ 308,631

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Equipment Capitalized Under Capital Lease Obligation	\$ 20,727	\$ -
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The accompanying notes are an integral part of the financial statements.

**SOJOURNER HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS**

ORGANIZATION AND PURPOSE

Sojourner House, Inc. (Sojourner) is a nonprofit organization that provides "a faith based residential and treatment program for mothers and their children to help break the intergenerational cycle of addiction". Sojourner House is licensed by the Commonwealth of Pennsylvania as a "women and children's" residential rehabilitation facility. Women live on-site, in their own apartments with up to three children, and both mothers and children receive services designed to help the mothers achieve sobriety and to repair family relationships injured as a result of the mother's history of severe abuse of chemicals and other substances.

PROGRAM DESCRIPTION

Sojourner provides comprehensive services including counseling, treatment and spirituality groups, on-site Narcotics Anonymous and Alcohol Anonymous, life skills training, parenting education, and referral. Youngsters are served in a Children's Center, school age children receive Drug and Alcohol Prevention services, recreation and homework support.

NOTE (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FINANCIAL STATEMENT PRESENTATION

Sojourner has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under this statement Sojourner is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

UNRESTRICTED NET ASSETS

The part of net assets that is neither permanently restricted nor temporarily restricted by donor imposed stipulations. These assets may be expended for any purpose designated by the Board of Directors.

TEMPORARILY RESTRICTED NET ASSETS

The part of net assets resulting from contributions and other inflows of assets whose use by the corporation is limited by donor imposed stipulations that are satisfied by the passage of time or can be fulfilled by actions of Sojourner pursuant to those stipulations.

ACCOUNTING METHOD

The accrual method of accounting is used for both financial statement presentation and tax reporting purposes. Under this method, revenue is recorded when earned and expenses are recorded when incurred without regard to the time of cash receipt and disbursement.

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, Sojourner considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash consists of checking and money market accounts and petty cash with the entire amount available for unrestricted purposes. At June 30, 2006 and 2005, the amount of funds in excess of the FDIC federally insured limit is \$69,043 and \$108,631, respectively.

**SOJOURNER HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CHARITY CARE

Certain contractual revenue is subject to an unpaid contractual allowance and client service may not ultimately be realized. Accordingly, Sojourner's policy is to record the unreimbursed service days as charity care.

CONTRIBUTIONS

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, that is when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DEPRECIATION

Depreciation is computed on historical costs using the straight-line method for financial statement presentation.

Building	40 Years
Building Improvements	3-35 Years
Furniture, Fixtures and Equipment	3-35 Years
Automobile	5 Years

Sojourner capitalizes furniture and equipment having a useful life greater than one year costing in excess of \$500.

Allegheny County retains a reversionary interest in real estate and equipment acquired through their funding. At June 30, 2006, Allegheny County had funded the following acquisitions:

Office Equipment and Furniture
Apartment Furnishings

DONATED SERVICES

Sojourner receives a substantial amount of donated services. During the fiscal year ended June 30, 2006, individuals donated in excess of 5,000 hours of volunteer service to assist Sojourner with carrying out its mission. In accordance with the requirements of SFAS No. 116, no amounts have been reflected in the financial statements for those services.

ESTIMATES

The process of preparing financial statements in accordance with accounting principles generally accepted in the United States of America, requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenue and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**SOJOURNER HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE (A) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FEDERAL INCOME TAX

The Internal Revenue Service has determined that Sojourner is not a private foundation and is exempt from federal income taxes pursuant to Internal Revenue Code Section 501(c)(3). Accordingly, no provision has been made for such taxes in the financial statements. The corporation files annual information returns with the Internal Revenue Service.

Contributions to Sojourner qualify for the charitable contributions deduction to the extent provided by Section 170 of the Internal Revenue Code.

FUNCTIONAL EXPENSES

Salaries and related expenses are allocated between client and administrative services, and fundraising expenses, based upon the time personnel spend on each function. The remaining expenses are specifically allocated whenever practical or are allocated based upon space utilization.

RELATED PARTY TRANSACTIONS

Sojourner is related to Sojourner House - Mom's through common Board members. For the year ended June 30, 2006, the relevant related party transactions are disclosed in Note (E).

NOTE (B) INVESTMENTS

Investments consist of mutual fund shares and are reported at market value. Unrealized gain or loss on these investments is reported in the Statement of Activities as required by SFAS 117.

The summary for the year ended June 30, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
Total Market Value	\$ 170,043	\$ 159,387
Total Cost	<u>170,701</u>	<u>150,900</u>
Unrealized Gain (Loss)	\$ <u>(658)</u>	\$ <u>8,487</u>

NOTE (C) CONTRACTUAL REVENUE RECEIVABLE

Sojourner has recorded the following contractual revenue receivable at June 30, 2006 and 2005:

<u>GRANTOR</u>	<u>SOURCE</u>	<u>2006</u>	<u>2005</u>
Community Care Behavioral Health	N / A	\$ 188,360	\$ 172,490
Value Behavioral Health	N / A	25,578	-
Allegheny County	Act 152	9,253	22,771
Warren County	Act 152	10,263	-
Other	N / A	<u>6,201</u>	<u>4,085</u>
		\$ 239,655	\$ 199,346
Less: Allowance for Uncollectible Funds		<u>(36,405)</u>	<u>(1,917)</u>
TOTAL		\$ <u>203,250</u>	\$ <u>197,429</u>

**SOJOURNER HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE (D) LONG-TERM LIABILITIES

**MORTGAGES PAYABLE - URBAN REDEVELOPMENT AUTHORITY
OF THE CITY OF PITTSBURGH**

	2006	2005
Mortgage (A) dated May 14, 1991, \$250,000 original principal balance, interest free loan, payable in monthly installments of \$694.44 beginning December 1, 1996 until November 1, 2026.	\$ 173,314	\$ 181,647
Mortgage (B) dated May 14, 1991, \$110,000 original principal balance, interest free loan, payable in one installment on May 13, 2090, or upon sale of the underlying security, whichever occurs first.	110,000	110,000
TOTAL MORTGAGES PAYABLE	\$ 283,314	\$ 291,647
Less: Current Portion	8,333	8,333
NONCURRENT PORTION OF MORTGAGES PAYABLE	\$ 274,981	\$ 283,314

These mortgages are secured by Sojourner's land and building located at 5460 Penn Avenue, Pittsburgh, PA.

CAPITAL LEASE OBLIGATION

On August 24, 2005, Sojourner acquired a copier under the provisions of a capital lease. The leased equipment under this capital lease had a cost of \$20,727 and the accumulated depreciation on the leased asset was \$2,961 at June 30, 2006. The 63 month lease requires monthly payments of \$329 and expires in December 2010.

The principal payments due for each of the next five fiscal years, and in the aggregate are as follows:

FISCAL YEAR ENDING	URA Mortgages	Capital Lease	Totals
June 30, 2007	\$ 8,333	\$ 3,948	\$ 12,281
June 30, 2008	8,333	3,948	12,281
June 30, 2009	8,333	3,948	12,281
June 30, 2010	8,333	3,948	12,281
June 30, 2011	8,333	1,974	10,307
Thereafter	241,649	-	241,649
Total	\$ 283,314	\$ 17,766	\$ 301,080

NOTE (E) REVENUE RAISED ON BEHALF OF OTHERS

Sojourner has raised funds on behalf of Sojourner House - Mom's. The cumulative amounts received through fiscal year ended June 30, 2006, were \$974,090 and the related expenses incurred were \$895,258. The remaining balance of \$78,832 at June 30, 2006 will be transferred to Sojourner House - Mom's during the fiscal year June 30, 2007.

**SOJOURNER HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE (F) CONTRACTUAL REVENUE

Sojourner has recorded the following contractual revenue:

<u>CONTRACTOR</u>	<u>SOURCE</u>	<u>2006</u>	<u>2005</u>
Community Care Behavioral Health	N /A	\$ 657,174	\$ 602,011
Value Behavioral Health	N /A	31,446	26,784
Allegheny County	Act 152	25,774	50,422
City of Pittsburgh	McKinney	28,150	28,150
Mercer County	Act 152	-	20,628
Venango County	Act 152	10,263	-
Warren County	Act 152	12,114	-
Washington County	Act 152	2,356	5,706
TOTAL		\$ <u>767,277</u>	\$ <u>733,701</u>

NOTE (G) COMMITMENTS

Sojourner has \$100,000 available at June 30, 2006, through a committed line of credit with a local bank. There were no borrowings on the line at June 30, 2006 and 2005. The line of credit expires on August 20, 2007 and is unsecured.

Sojourner is related to Sojourner House - Mom's through common Board members and provides billing and collection services for Mom's contract with HUD. Sojourner has provided a commitment to provide Mom's with funding for any deficiencies it may encounter with the HUD contract. If there are certain unreimbursed costs of Mom's, Sojourner will loan the monies to Mom's on a short-term, interest free basis. At June 30, 2006, there was no liability recorded on this commitment due to adequate HUD funding of Mom's.

NOTE (H) ECONOMIC DEPENDENCY

Sojourner recognized a significant portion of its total revenue for the years ended June 30, 2006 and 2005, through activity with one contractor. This contractor provided approximately 74% and 70% of total revenues during the two fiscal years, respectively.