

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

June 30, 2008

RENEWAL HOUSE, INC.

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Renewal House, Inc. (a nonprofit organization) as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Renewal House, Inc. as of June 30, 2008, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2008, 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 important for assessing the results of our audit.

Our audit was conducted 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 as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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

November 6, 2008
Nashville, Tennessee

RENEWAL HOUSE, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2008

Assets	
Current assets:	
Cash and cash equivalents	\$ 422,458
Investments	690,508
Federal and state awards receivable	213,174
Grants receivable	24,127
Other	9,910
	<u> </u>
Total current assets	1,360,177
Property and equipment, net	<u>1,555,056</u>
Total assets	<u><u>\$ 2,915,233</u></u>
 Liabilities and Net Assets	
Current liabilities:	
Accounts payable	<u>\$ 97,849</u>
Total current liabilities	<u>97,849</u>
Net assets:	
Unrestricted:	
Undesignated	2,503,064
Designated	<u>275,485</u>
	<u>2,778,549</u>
Temporarily restricted	<u>38,835</u>
Total net assets	<u>2,817,384</u>
Total liabilities and net assets	<u><u>\$ 2,915,233</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenue:			
Federal and state grants	\$1,051,286	\$ -	\$1,051,286
Contributions	327,075	20,156	347,231
Rental income	49,085	-	49,085
Special events, less direct benefit costs of \$22,964	59,278	-	59,278
Program service fees	19,973	-	19,973
Investment loss, net	(1,107)	-	(1,107)
Released from restrictions	<u>123,185</u>	<u>(123,185)</u>	<u>-</u>
Total public support and revenue	<u>1,628,775</u>	<u>(103,029)</u>	<u>1,525,746</u>
Expenses:			
Program services	1,167,647	-	1,167,647
Management and general	115,982	-	115,982
Fundraising	<u>68,112</u>	<u>-</u>	<u>68,112</u>
Total expenses	<u>1,351,741</u>	<u>-</u>	<u>1,351,741</u>
Change in net assets	277,034	(103,029)	174,005
Net assets - beginning of year	<u>2,501,515</u>	<u>141,864</u>	<u>2,643,379</u>
Net assets - end of year	<u><u>\$2,778,549</u></u>	<u><u>\$ 38,835</u></u>	<u><u>\$2,817,384</u></u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2008

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 649,307	\$ 82,595	\$ 49,706	\$ 781,608
Employee benefits	160,222	20,010	12,457	192,689
Repairs and maintenance	113,829	6,633	-	120,462
Professional fees	53,883	1,987	2,186	58,056
Depreciation	51,902	-	-	51,902
Insurance	34,724	1,413	850	36,987
Supplies	29,972	915	453	31,340
Transportation	28,757	-	-	28,757
Communications	12,720	1,249	1,374	15,343
Conferences and meetings	10,944	131	613	11,688
Miscellaneous	9,971	137	151	10,259
Travel	4,471	-	-	4,471
Printing	3,499	400	200	4,099
Recruiting	2,053	12	57	2,122
Fees and memberships	492	423	65	980
Postage	901	77	-	978
	<u>\$ 1,167,647</u>	<u>\$ 115,982</u>	<u>\$ 68,112</u>	<u>\$ 1,351,741</u>

See accompanying notes.

RENEWAL HOUSE, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

Cash flows from operating activities:	
Change in net assets	\$ 174,005
Adjustments to reconcile change in net assets	
to net cash provided by operating activities:	
Depreciation	51,902
Unrealized and realized losses on investments	30,507
Donated property and equipment	(48,068)
Changes in current assets and liabilities:	
Grants receivable	(159,568)
Accounts payable	87,179
	<u>135,957</u>
Net cash provided by operating activities	
Cash flows from investing activities:	
Proceeds from sale of investments	8,692
Purchase of property and equipment	(391,851)
	<u>(383,159)</u>
Net cash used in investing activities	
Net decrease in cash and cash equivalents	(247,202)
Cash and cash equivalents - beginning of year	<u>669,660</u>
Cash and cash equivalents - end of year	<u>\$ 422,458</u>
Supplemental information:	
Donated property and equipment	<u>\$ 48,068</u>

See accompanying notes.

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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. The Organization 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, the Organization added an Intensive Outpatient Treatment Program, which is licensed by the State of Tennessee 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 accounting principles generally accepted in the United States of America. 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 or is met 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, 2008

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 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 estimated 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 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, 2008

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2008:

Land	\$ 215,779
Construction in progress	76,535
Building and land improvements	1,263,390
Furniture and equipment	<u>461,187</u>
	2,016,891
Less accumulated depreciation	<u>(461,835)</u>
	<u>\$ 1,555,056</u>

NOTE 3 – INVESTMENTS

Investments consist of the following at June 30, 2008:

Equities	\$ 246,058
Bonds	376,202
Certificates of deposit (rates ranging from 5.0% to 5.3%, maturity dates ranging from April 1, 2015 through September 30, 2019)	<u>68,248</u>
	<u>\$ 690,508</u>

The following schedule summarizes total investment return for all investments in the statements of activities for the year ended June 30, 2008:

Interest and dividend income	29,400
Net realized/unrealized losses on investments	<u>(30,507)</u>
	<u>\$ (1,107)</u>

RENEWAL HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
June 30, 2008

NOTE 4 – CONCENTRATION OF CREDIT RISK

The Organization's cash account balances at June 30, 2008 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 eligible employees that choose to participate. The Organization made contributions of \$8,998 for the year ended June 30, 2008.

NOTE 7 – NET ASSETS

On June 30, 2000, the Organization's Executive Committee created a separate fund with unrestricted contributions to provide resources for the long-term needs of the Organization. Furthermore, effective fiscal year 2007, the Executive Committee approved an investment policy whereby 33% of the Organization's investments are to be designated for long-term needs. As of June 30, 2008 \$275,485 were designated as Endowment Funds for long-term use.

Temporarily restricted net assets include the following contributions as of June 30, 2008:

Expansion of vocational program	\$ 15,000
Computer learning center	5,339
Intensive Outpatient Program	2,535
Security improvements	2,548
Project Magic	3,070
Technology	1,650
Suits for Success	1,193
A Women's Thanksgiving	<u>7,500</u>
	<u>\$ 38,835</u>

NOTE 8 – SUBSEQUENT EVENT

Subsequent to June 30, 2008, the Organization purchased a piece of adjacent property for approximately \$240,000.

SUPPLEMENTAL INFORMATION



RENEWAL HOUSE, INC
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2007	Cash Receipts	Expenditures	Receivable June 30, 2008
FEDERAL AWARDS							
U.S. Department of Homeland Security passed through: United Way	Emergency Food and Shelter Program	97.024	N/A	\$ -	\$ 5,500	\$ 11,000	\$ 5,500
Total for U.S. Department of Homeland Security*				-	5,500	11,000	5,500
U.S. Department of Housing and Urban Development: U.S. Department of Housing and Urban Development	Supportive Housing Program	14.235	TN37B604004	2,471	30,994	28,523	-
U.S. Department of Housing and Urban Development	Supportive Housing Program	14.235	TN37B704003	-	10,549	16,013	5,464
Total for CFDA No. 14.235				2,471	41,543	44,536	5,464
Passed through Nashville Metropolitan Development and Housing Agency	Emergency Shelter Grants Program	14.231	N/A	-	6,638	7,000	362
Total for CFDA No. 14.231*				-	6,638	7,000	362
Total for U.S. Department of Housing and Urban Development				2,471	48,181	51,536	5,826
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	Z-07-034155-00	19,882	19,882	-	-
TN Department of Mental Health and Developmental Disabilities	Block Grants for Prevention and Treatment of Substance Abuse	93.959	Z-08-023625-00*	-	288,276	309,195	20,919
Total for CFDA No. 93.959*				19,882	308,158	309,195	20,919
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-05	-	125,029	125,999	970
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-03	4,773	4,773	-	-
TN Department of Human Services	Temporary Assistance for Needy Families	93.558	GR-05-16128-01	7	7	-	-
Total for CFDA No. 93.558*				4,780	129,809	125,999	970
TN Department of Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	93.958	GR-07-17980-00	812	812	-	-
TN Department of Mental Health and Developmental Disabilities	Block Grants for Community Mental Health Services	93.958	GR-08-21526-00	-	3,178	3,949	771
Total for CFDA No. 93.958*				812	3,990	3,949	771
Total for U.S. Department of Health and Human Services				25,474	441,957	439,143	22,660
Total Federal Awards				\$ 27,945	\$ 495,638	\$ 501,679	\$ 33,986

RENEWAL HOUSE, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor	Program Name	CFDA Number	Contract Number	Receivable June 30, 2007	Cash Receipts	Expenditures	Receivable June 30, 2008
STATE AWARDS							
TN Department of Health	Block Grants for Prevention and Treatment of Substance Abuse	N/A	Z-07-034155-00#	\$ 6,291	\$ 6,291	\$ -	\$ -
TN Department of Mental Health and Developmental Disabilities	Block Grants for Prevention and Treatment of Substance Abuse	N/A	GR-08-21526-00#	-	16,698	20,759	4,061
TN Department of Human Services	Temporary Assistance for Needy Families	N/A	GR-05-16128-03#	8,865	8,865	-	-
TN Department of Human Services	Temporary Assistance for Needy Families	N/A	GR-05-16128-01#	82	82	-	-
TN Department of Human Services	Temporary Assistance for Needy Families	N/A	GR-05-16128-05#	-	232,197	233,998	1,801
TN Department of Mental Health and Developmental Disabilities	Early Childhood Intervention	N/A	GR-07-17980-00#	4,280	4,280	-	-
TN Housing Development Agency	Rehabilitation of Housing Units	N/A	HTF-07-26	-	-	126,000	126,000
TN Department of Children's Services	Consultation and Technical Assistance	N/A	GR-08-22144-00	-	53,745	73,850	20,105
TN Department of Children's Services	Needs Assessment	N/A	GR-07-18284-01	-	63,645	80,000	16,355
TN Department of Children's Services	Co-Occurring Disorders	N/A	GR-08-23516-00	-	4,134	15,000	10,866
TN Department of Children's Services	Family Preservation/ Addiction Recovery Program	N/A	GR-05-17561-00	3,431	3,431	-	-
TN Department of Children's Services	Technical Assistance	N/A	GR-06-17841-00	18,279	18,279	-	-
TN Department of Children's Services	Needs Assessment	N/A	GR-07-18284-00	8,560	8,560	-	-
Total State Awards				49,788	420,207	549,607	179,188
Total Federal and State Awards				\$ 77,733	\$ 915,845	\$ 1,051,286	\$ 213,174

* Cash grant receipts represent federal pass-through funds

Represents state's portion of grant

- Represents major program

NOTE 1 - BASIS OF ACCOUNTING

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



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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***

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

We have audited the financial statements of Renewal House, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated November 6, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Renewal House, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

Financial Reporting

The Committee of Sponsoring Organizations ("COSO") framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Organization's audited financial statements. The Organization has typically utilized the year-end audit as a method to assist it in making final adjustments to its internal accounting records in order to present them in accordance with generally accepted accounting principles. Statement on Auditing Standards ("SAS") No. 112, *Communicating Internal Control Related Matters in an Audit*, effective for periods ending after December 15, 2006, heightened communication requirements regarding internal controls. Under SAS No. 112, material audit adjustments are required to be communicated as significant deficiencies. Management should consider establishing a year-end close process that does not require adjustments to be made through its year-end audit.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

We noted certain other matters that we reported to management of Renewal House, Inc. in a separate letter dated November 6, 2008.

This report is intended solely for the information and use of management, the board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fraser, Dean & Howard PLLC

November 6, 2008
Nashville, Tennessee



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of Renewal House, Inc. with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Renewal House, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Renewal House, Inc.'s management. Our responsibility is to express an opinion on Renewal House, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Renewal House, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Renewal House, Inc.'s compliance with those requirements.

In our opinion, Renewal House, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Renewal House, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Renewal House, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Renewal House, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the board of directors, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frazer, Dean & Howard, PLLC

November 6, 2008
Nashville, Tennessee

RENEWAL HOUSE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2008

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Renewal House, Inc.
2. No instances of noncompliance material to the financial statements of Renewal House, Inc. were disclosed during the audit.
3. The auditor's report on compliance for the major federal award programs for Renewal House, Inc. expresses an unqualified opinion on all major federal programs.
4. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
5. The programs tested as major programs include:

CFDA Number
93.959

Name of Federal Program or Cluster
Block Grants for Prevention and Treatment of
Substance Abuse

6. The threshold for distinguishing Types A and B programs was \$300,000.
7. Renewal House, Inc. did not qualify as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENTS AUDIT

2008-1 Audit Adjustments

Statement of Condition: The Committee of Sponsoring Organizations ("COSO") framework for effective internal control over financial reporting involves the identification and analysis of the risks of material misstatement to the Organization's audited financial statements. The Organization has typically utilized the year-end audit as a method to assist it in making final adjustments to its internal accounting records in order to present them in accordance with generally accepted accounting principles. Statement on Auditing Standards ("SAS") No. 112, *Communicating Internal Control Related Matters in an Audit*, effective for periods ending after December 15, 2006, heightened communication requirements regarding internal controls. Under SAS No. 112, material audit adjustments are required to be communicated as significant deficiencies.

Effect of Condition: Financial statements could be issued that do not properly reflect the Organization's financial condition and results of operations.

RENEWAL HOUSE, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2008

Cause of Condition: Final closing entries have typically been made in conjunction with the audit process.

Auditor's Recommendation: The Organization should consider making all adjusting entries prior to commencement of its year-end audit.

Grantor Response: We concur with the finding and will have an objective of no audit adjustments for fiscal year 2009.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

NONE

RENEWAL HOUSE, INC.
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
Year Ended June 30, 2008

NONE

CORRECTIVE ACTION PLAN

November 6, 2008

United States Department of Health and Human Services

Renewal House, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2008.

Name and address of independent public accounting firm:
Frasier, Dean & Howard, PLLC
3310 West End Avenue, Suite 550
Nashville, TN 37203

Audit period: July 1, 2007 - June 30, 2008

The findings from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

Significant Deficiency

2008-1 **Auditor's Recommendation:** The Organization should consider making all adjusting entries prior to commencement of its year-end audit.

Action Taken: We concur with the recommendation and will attempt to make all year end adjusting entries prior to the fiscal year 2009 audit commencement.

Material Weakness

None

FINDINGS - FEDERAL AWARD PROGRAMS AUDITS

None

If there are questions regarding this plan, please call Jude White, Executive Director, at (615) 255-5222 ext. 108.