

NEW HORIZONS CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2007

(With Independent Auditor's Report Thereon)

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NEW HORIZONS CORPORATION  
FINANCIAL STATEMENTS  
JUNE 30, 2007

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
New Horizons Corporation

We have audited the accompanying statement of financial position of New Horizons Corporation (a nonprofit organization) as of June 30, 2007, 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. 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 New Horizons Corporation as of June 30, 2007, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on page 10 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 whole.

*Akersloot, Patterson & Associates, P.L.L.C.*

October 23, 2007

**NEW HORIZONS CORPORATION**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2007**

**ASSETS**

Current Assets:

|                           |               |            |
|---------------------------|---------------|------------|
| Cash and cash equivalents | \$ 264,008    |            |
| Certificates of deposit   | 125,000       |            |
| Accounts receivable       | 189,772       |            |
| Prepaid expenses          | <u>20,394</u> |            |
| Total current assets      |               | \$ 599,174 |

Land, Building, and Equipment:

|                                |                    |                     |
|--------------------------------|--------------------|---------------------|
| Land                           | 45,234             |                     |
| Building                       | 1,250,569          |                     |
| Equipment                      | 427,729            |                     |
| Vehicles                       | <u>199,145</u>     |                     |
|                                | 1,922,677          |                     |
| Less: accumulated depreciation | <u>(1,170,551)</u> |                     |
|                                |                    | <u>752,126</u>      |
|                                |                    | <u>\$ 1,351,300</u> |

**LIABILITIES AND NET ASSETS**

Current Liabilities:

|                                      |               |            |
|--------------------------------------|---------------|------------|
| Current installments of note payable | \$ 29,587     |            |
| Accounts payable                     | 58,915        |            |
| Accrued expenses                     | 131,473       |            |
| Deferred revenue                     | <u>34,926</u> |            |
| Total current liabilities            |               | \$ 254,901 |

Note payable, less current installments

|                   |            |                |
|-------------------|------------|----------------|
|                   | <u>877</u> |                |
| Total liabilities |            | <u>255,778</u> |

Net Assets:

|                                 |                |                     |
|---------------------------------|----------------|---------------------|
| Unrestricted                    | 803,944        |                     |
| Unrestricted - board designated | <u>224,791</u> |                     |
| Total unrestricted net assets   |                | 1,028,735           |
| Temporarily restricted          |                | <u>66,787</u>       |
| Total net assets                |                | <u>1,095,522</u>    |
|                                 |                | <u>\$ 1,351,300</u> |

See accompanying notes to financial statements.

**NEW HORIZONS CORPORATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

|   | <u>Unrestricted</u> | <u>Temporarily<br/>Restricted</u> | <u>Permanently<br/>Restricted</u> | <u>Total</u>        |
|---|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Public Support and Revenue:             |                     |                                   |                                   |                     |
| Donations                               | \$ 78,745           | \$ 63,000                         | \$ -                              | \$ 141,745          |
| Program service fees                    | 2,642,732           | -                                 | -                                 | 2,642,732           |
| Contract services                       | 1,423,263           | -                                 | -                                 | 1,423,263           |
| Special fundraising events              | 20,417              | -                                 | -                                 | 20,417              |
| Interest income                         | 7,466               | -                                 | -                                 | 7,466               |
| Miscellaneous                           | 9,853               | -                                 | -                                 | 9,853               |
| Net assets released from restrictions - |                     |                                   |                                   |                     |
| restrictions satisfied by payments      | 28,610              | (28,610)                          | -                                 | -                   |
| Total public support and revenue        | <u>4,211,086</u>    | <u>34,390</u>                     | <u>-</u>                          | <u>4,245,476</u>    |
| Expenses and Losses:                    |                     |                                   |                                   |                     |
| Program Services:                       |                     |                                   |                                   |                     |
| Adult Day Services                      | 1,296,412           | -                                 | -                                 | 1,296,412           |
| Community Based Services                | 1,038,356           | -                                 | -                                 | 1,038,356           |
| Burkett House                           | 56,685              | -                                 | -                                 | 56,685              |
| Eanes House                             | 249,240             | -                                 | -                                 | 249,240             |
| Donelson House                          | 220,981             | -                                 | -                                 | 220,981             |
| Madison House                           | 226,799             | -                                 | -                                 | 226,799             |
| Supported Living                        | 644,181             | -                                 | -                                 | 644,181             |
| Total program services                  | <u>3,732,654</u>    | <u>-</u>                          | <u>-</u>                          | <u>3,732,654</u>    |
| Supporting Services:                    |                     |                                   |                                   |                     |
| Management and general                  | 511,648             | -                                 | -                                 | 511,648             |
| Fundraising                             | 8,156               | -                                 | -                                 | 8,156               |
| Total supporting services               | <u>519,804</u>      | <u>-</u>                          | <u>-</u>                          | <u>519,804</u>      |
| Total program and                       |                     |                                   |                                   |                     |
| supporting services                     | <u>4,252,458</u>    | <u>-</u>                          | <u>-</u>                          | <u>4,252,458</u>    |
| Increase (Decrease) in net assets       | (41,372)            | 34,390                            | -                                 | (6,982)             |
| Net assets - beginning of year          | <u>1,070,107</u>    | <u>32,397</u>                     | <u>-</u>                          | <u>1,102,504</u>    |
| Net assets - end of year                | <u>\$ 1,028,735</u> | <u>\$ 66,787</u>                  | <u>\$ -</u>                       | <u>\$ 1,095,522</u> |

See accompanying notes to financial statements.

| <u>Program Services (continued)</u> |                      |                         |                               | <u>Supporting Services</u>    |                    |                       |
|-------------------------------------|----------------------|-------------------------|-------------------------------|-------------------------------|--------------------|-----------------------|
| <u>Donelson House</u>               | <u>Madison House</u> | <u>Supported Living</u> | <u>Total Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total Expenses</u> |
| \$ 162,253                          | \$ 162,862           | \$ 401,228              | \$ 2,300,811                  | \$ 262,297                    | \$ -               | \$ 2,563,108          |
| 11,492                              | 11,715               | 26,275                  | 167,377                       | 24,125                        | -                  | 191,502               |
| 578                                 | 856                  | 2,055                   | 11,258                        | 4,296                         | -                  | 15,554                |
| 174,323                             | 175,433              | 429,558                 | 2,479,446                     | 290,718                       | -                  | 2,770,164             |
| -                                   | -                    | -                       | 328,145                       | -                             | -                  | 328,145               |
| 17,510                              | 21,345               | 59,228                  | 273,944                       | 52,785                        | -                  | 326,729               |
| 976                                 | 1,086                | 12,797                  | 89,505                        | 9,565                         | -                  | 99,070                |
| -                                   | -                    | -                       | -                             | 3,316                         | -                  | 3,316                 |
| 720                                 | -                    | 1,777                   | 2,583                         | 2,076                         | -                  | 4,659                 |
| -                                   | -                    | -                       | 0                             | 393                           | -                  | 393                   |
| 683                                 | 652                  | 4,698                   | 6,205                         | 1,165                         | -                  | 7,370                 |
| -                                   | -                    | 42,217                  | 52,013                        | 8,770                         | -                  | 60,783                |
| 1,537                               | 648                  | 385                     | 63,706                        | 4,649                         | -                  | 68,355                |
| 4,779                               | 5,618                | 2                       | 36,976                        | 6,740                         | -                  | 43,716                |
| 2,338                               | 2,197                | 289                     | 118,405                       | 17,860                        | 7,075              | 143,340               |
| 2,773                               | 5,744                | 32,204                  | 92,841                        | 1,132                         | -                  | 93,973                |
| -                                   | -                    | 22,990                  | 22,990                        | -                             | -                  | 22,990                |
| -                                   | -                    | 2,199                   | 2,530                         | 13,199                        | -                  | 15,729                |
| 19                                  | 9                    | 70                      | 366                           | 595                           | -                  | 961                   |
| 1,374                               | 854                  | 588                     | 12,985                        | 83,161                        | -                  | 96,146                |
| 275                                 | 395                  | 60                      | 2,580                         | 1,839                         | -                  | 4,419                 |
| 13,325                              | 12,349               | 35,119                  | 67,353                        | 2,851                         | -                  | 70,214                |
| -                                   | -                    | -                       | 1,333                         | 7,385                         | -                  | 8,768                 |
| 220,632                             | 226,330              | 644,181                 | 3,653,966                     | 508,199                       | 7,075              | 4,169,240             |
| 349                                 | 469                  | -                       | 78,688                        | 3,449                         | 1,081              | 83,218                |
| <u>\$ 220,981</u>                   | <u>\$ 226,799</u>    | <u>\$ 644,181</u>       | <u>\$ 3,732,654</u>           | <u>\$ 511,648</u>             | <u>\$ 8,156</u>    | <u>\$ 4,252,458</u>   |

NEW HORIZONS CORPORATION  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007

Cash Flows From Operating Activities:

|                        |    |         |
|------------------------|----|---------|
| Decrease in net assets | \$ | (6,982) |
|------------------------|----|---------|

Adjustments to reconcile decrease in net assets  
to net cash used in operating activities:

|   |               |               |
|---|---------------|---------------|
| Depreciation                              | \$            | 83,218        |
| Changes in:                               |               |               |
| Accounts receivable and deferred revenue  | 25,688        |               |
| Prepaid expenses                          | 2,897         |               |
| Accounts payable                          | (61,416)      |               |
| Accrued expenses                          | <u>35,514</u> |               |
| Total adjustments                         |               | <u>85,901</u> |
| Net cash provided by operating activities |               | 78,919        |

Cash Flows from Investing Activities:

|  |                 |          |
|--|-----------------|----------|
| Purchases of land, building, and equipment | <u>(31,785)</u> |          |
| Net cash used in investing activities      |                 | (31,785) |

Cash Flows from Financing Activities:

|                                       |                 |                 |
|---------------------------------------|-----------------|-----------------|
| Payments on note payable              | <u>(28,714)</u> |                 |
| Net cash used in financing activities |                 | <u>(28,714)</u> |

|   |  |        |
|---|--|--------|
| Net increase in cash and cash equivalents |  | 18,420 |
|---|--|--------|

|   |  |                |
|---|--|----------------|
| Cash and cash equivalents - beginning of year |  | <u>245,588</u> |
|---|--|----------------|

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|   |    |                |
|---|----|----------------|
| Cash and cash equivalents - end of year | \$ | <u>264,008</u> |
|---|----|----------------|

Supplemental Cash Flow Information:

Interest paid during the year ended June 30, 2007, was \$ 8,768.

NEW HORIZONS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies

a. Nature of Activities

New Horizons Corporation, a nonprofit organization located in Nashville, Tennessee, was formed in 1971 to provide day habilitation, residential services and employment opportunities to adults with developmental disabilities. Principal funding is provided by the State of Tennessee Department of Finance and Administration - Division of Mental Health and Developmental Disabilities, production facility contracts, community based employment contracts, residential services, and the Nashville area United Way.

b. Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. 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. Restrictions that are fulfilled in the same accounting period in which the contributions are received are reported in the Statement of Activities as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned and any related investments for general or specific purposes.

c. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all unrestricted cash and investment instruments purchased with original maturities of three months or less to be cash equivalents. At June 30, 2007, two \$25,000 certificates of deposit are included as cash equivalents.

d. Accounts Receivable

The Organization considers accounts receivable to be fully collectible at year-end. Accordingly, no allowance for doubtful accounts has been recorded.

At June 30, 2007, accounts receivable consisted of the following:

| <u>Vendor</u>         | <u>Amount</u>     |
|-----------------------|-------------------|
| CMRA                  | \$ 86,953         |
| Wilson Sporting Goods | 42,999            |
| WM. Wright            | 34,987            |
| Other                 | <u>24,833</u>     |
|                       | <u>\$ 189,772</u> |



NEW HORIZONS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (continued)

e. Land, Building, and Equipment

Land, building, and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is provided utilizing the straight-line method over the estimated useful lives of the respective assets. The Organization's capitalization policy is to capitalize any expenditures over \$500 for any land, building, and equipment purchased. Expenditures for repairs and maintenance are charged to expense as incurred.

f. Deferred Revenue

The State of Tennessee once paid the Organization an estimate one month in advance but also continued to pay them for each reimbursement request submitted. Each year, the State adjusts its last payment for any overage or underpayment associated with the estimate. This results in the state being at least one payment in advance every year resulting in deferred revenue for the Organization.

g. Accrued Expenses

Accrued expenses include accrued wages, leave, and any other liability that is accrued at year end. At June 30, 2007, accrued expenses consisted of the following:

|               |                   |
|---------------|-------------------|
| Accrued wages | \$ 105,653        |
| Accrued leave | <u>25,820</u>     |
|               | <u>\$ 131,473</u> |

h. Income Tax Status

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and the Organization is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. Therefore, no provision for federal income taxes is included in the accompanying financial statements.

i. Functional Allocation of Expenses

The costs of providing program services 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.

j. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

NEW HORIZONS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 1 - Summary of Significant Accounting Policies (continued)

k. Fair Values of Financial Instruments

The carrying values of current assets and current liabilities approximate fair values due to the short maturities of these instruments.

The fair value of the note payable approximates the carrying amount and is estimated based on current rates offered to the Organization.

NOTE 2 - Concentration of Credit Risk

At June 30, 2007, three customers owed the Organization approximately 86% of the total accounts receivable.

NOTE 3 - Net Assets

At June 30, 2007, the Board of Directors has designated \$224,791 in designated net assets to be used for future maintenance projects.

Also at June 30, 2007, the Organization had \$66,787 held in assets whose use was restricted by the donors as follows:

|   |                  |
|---|------------------|
| Flooring                                | \$ 260           |
| Facility improvements                   | 5,000            |
| Lamberson                               | 13,590           |
| HCA                                     | 20,000           |
| Rice                                    | 3,000            |
| Greenhouse                              | <u>24,937</u>    |
| Total temporarily restricted net assets | <u>\$ 66,787</u> |

NOTE 4 - Note Payable

The Organization has a note payable to a financing company in the amount of \$30,464. The note is payable in monthly installments of \$2,508, including interest at 3%, through maturity in July 2008. The note is collateralized with a second mortgage on the office and training facility and two group homes. The note is further secured by a first lien security agreement covering all the machinery, equipment, furniture, and fixtures presently owned and hereafter acquired, excluding automobiles, leased equipment, and trucks requiring titling.

The following is a schedule of future maturities:

|                 |                 |
|-----------------|-----------------|
| Year Ending     |                 |
| <u>June 30,</u> |                 |
| 2008            | \$ 29,587       |
| 2009            | <u>877</u>      |
|                 | 30,464          |
|                 | <u>(29,587)</u> |
|                 | <u>\$ 877</u>   |

NEW HORIZONS CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

NOTE 5 - Lines of Credit

The Organization has two available lines of credit with two separate banks. As of June 30, 2007, the Organization had drawn \$-0- of the total \$275,000 available. The line of credit for \$100,000 expires on December 22, 2007, and the line of credit for \$175,000 expires on September 28, 2008. The lines of credit are secured by a commercial pledge agreement and certificates of deposit.

NOTE 6 - Lease Agreement

The Organization leases a copier and other equipment under lease arrangements classified as operating leases. The Organization also leases certain property from the State of Tennessee for \$1 per year. The lease with the State of Tennessee expires on May 30, 2039. The copier lease is payable in monthly payments of \$629 and expires in January 2011. The remaining leases are month-to-month. Total rent expense for the year ended June 30, 2007, was \$60,783.

Future minimum lease payments are as follows:

| <u>Year Ending</u><br><u>June 30,</u> | <u>Amount</u>   |
|---------------------------------------|-----------------|
| 2008                                  | 7,548           |
| 2009                                  | 7,548           |
| 2010                                  | <u>4,403</u>    |
|                                       | <u>\$19,499</u> |

NOTE 7 - Pension Plan

The Board of Directors of New Horizons Corporation established a money purchase pension plan for the benefit of its employees as of January 1, 1991. The Plan is administered by the Equitable Life Assurance Society of the United States. Under the Plan, employees may contribute an amount not to exceed 3% of their annual base compensation and the Organization matches the individual employee's contribution. An employee must have been employed for a minimum of one-half year and have attained the age of 20 and one-half years on or before the anniversary date of the plan to participate in the program. Employee benefits are fully vested after they have participated in the program for six years on the anniversary date of the Plan. Vesting begins after the employee has participated in the program for a minimum of two years as of the anniversary date of the Plan. During the year ended June 30, 2007, the Organization contributed \$15,554 to the Plan.

NOTE 8 - Contingency

From time to time, the Organization may be named as a defendant in lawsuits filed by a former employee or its clients. At June 30, 2007, the Company does not believe that any claims have merit and intends to vigorously defend its position for all outstanding claims.

**NEW HORIZONS CORPORATION**  
**SCHEDULE OF PROGRAM SERVICE FEES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

|                     | <u>Adult Day<br/>Services</u> | <u>Community<br/>Based Services</u> | <u>Burkett<br/>House</u> | <u>Eanes<br/>House</u> | <u>Donelson<br/>House</u> | <u>Madison<br/>House</u> | <u>Supported<br/>Living</u> | <u>Total Program<br/>Service Fees</u> |
|---------------------|-------------------------------|-------------------------------------|--------------------------|------------------------|---------------------------|--------------------------|-----------------------------|---------------------------------------|
| Fee for service     | \$ 172,990                    | \$ 218,404                          | \$ 22,276                | \$ -                   | \$ -                      | \$ -                     | \$ 53,707                   | \$ 467,377                            |
| Medicaid waiver     | 463,415                       | 215,900                             | 21,218                   | 136,359                | 147,638                   | 147,573                  | 798,887                     | 1,930,990                             |
| Personnel assistant | -                             | 5,405                               | 5,049                    | -                      | 42,174                    | 42,504                   | 9,418                       | 104,550                               |
| Room and board      | -                             | -                                   | 6,235                    | 43,416                 | 31,279                    | 25,375                   | -                           | 106,305                               |
| Background checks   | 808                           | 688                                 | -                        | -                      | -                         | -                        | -                           | 1,496                                 |
| Special housing     | -                             | -                                   | -                        | -                      | 2,097                     | 656                      | 348                         | 3,101                                 |
| Food stamps         | -                             | -                                   | 455                      | 5,145                  | 7,867                     | 3,650                    | 10,700                      | 27,817                                |
| Recycling           | 1,096                         | -                                   | -                        | -                      | -                         | -                        | -                           | 1,096                                 |
|                     | <u>\$ 638,309</u>             | <u>\$ 440,397</u>                   | <u>\$ 55,233</u>         | <u>\$ 184,920</u>      | <u>\$ 231,055</u>         | <u>\$ 219,758</u>        | <u>\$ 873,060</u>           | <u>\$ 2,642,732</u>                   |

