

NEW HORIZONS CORPORATION

FINANCIAL STATEMENTS

JUNE 30, 2006

(With Independent Auditors' Report Thereon)

NEW HORIZONS CORPORATION
FINANCIAL STATEMENTS
JUNE 30, 2006

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AccountantsINDEPENDENT AUDITORS' 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, 2006, 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, 2006, 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.

Akerslout Patterson Associates PLLC

September 25, 2006

NEW HORIZONS CORPORATION
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2006

ASSETS

Current Assets:

| | | |
|---------------------------|---------------|------------|
| Cash and cash equivalents | \$ 245,588 | |
| Certificates of deposit | 125,000 | |
| Accounts receivable | 378,995 | |
| Prepaid expenses | <u>23,291</u> | |
| Total current assets | | \$ 772,874 |

Land, Building, and Equipment:

| | | |
|--------------------------------|--------------------|---------------------|
| Land | 45,234 | |
| Building | 1,248,369 | |
| Equipment | 398,144 | |
| Vehicles | <u>199,145</u> | |
| | 1,890,892 | |
| Less: accumulated depreciation | <u>(1,087,333)</u> | |
| | | <u>803,559</u> |
| | | <u>\$ 1,576,433</u> |

LIABILITIES AND NET ASSETS

Current Liabilities:

| | | |
|--------------------------------------|----------------|------------|
| Current installments of note payable | \$ 28,713 | |
| Accounts payable | 120,331 | |
| Accrued expenses | 95,959 | |
| Deferred revenue | <u>198,461</u> | |
| Total current liabilities | | \$ 443,464 |

Note payable, less current installments

| | | |
|-------------------|---------------|----------------|
| | <u>30,465</u> | |
| Total liabilities | | <u>473,929</u> |

Net Assets:

| | | |
|---------------------------------|----------------|---------------------|
| Unrestricted | 852,356 | |
| Unrestricted - board designated | <u>217,751</u> | |
| Total unrestricted net assets | | 1,070,107 |
| Temporarily restricted | | <u>32,397</u> |
| Total net assets | | <u>1,102,504</u> |
| | | <u>\$ 1,576,433</u> |

See accompanying notes to financial statements.

NEW HORIZONS CORPORATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Un restricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|----------------------|-----------------------------------|-----------------------------------|---------------------|
| Public Support and Revenue: | | | | |
| Donations | \$ 69,547 | \$ 55,000 | \$ - | \$ 124,547 |
| Program service fees | 2,741,737 | - | - | 2,741,737 |
| Contract services | 1,399,124 | - | - | 1,399,124 |
| Special fundraising events | 18,522 | - | - | 18,522 |
| Interest income | 12,096 | - | - | 12,096 |
| Miscellaneous | 25,303 | - | - | 25,303 |
| Net assets released from restrictions - restrictions satisfied by payments | <u>47,603</u> | <u>(47,603)</u> | <u>-</u> | <u>-</u> |
| Total public support and revenue | <u>4,313,932</u> | <u>7,397</u> | <u>-</u> | <u>4,321,329</u> |
| Expenses and Losses: | | | | |
| Program Services: | | | | |
| Adult Day Services | 1,256,440 | - | - | 1,256,440 |
| Community Based Services | 970,873 | - | - | 970,873 |
| Burkett House | 224,425 | - | - | 224,425 |
| Eanes House | 189,924 | - | - | 189,924 |
| Donelson House | 193,719 | - | - | 193,719 |
| Madison House | 212,557 | - | - | 212,557 |
| Supported Living | <u>591,397</u> | <u>-</u> | <u>-</u> | <u>591,397</u> |
| Total program services | <u>3,639,335</u> | <u>-</u> | <u>-</u> | <u>3,639,335</u> |
| Supporting Services: | | | | |
| Management and general | 591,961 | - | - | 591,961 |
| Fundraising | <u>34,853</u> | <u>-</u> | <u>-</u> | <u>34,853</u> |
| Total supporting services | <u>626,814</u> | <u>-</u> | <u>-</u> | <u>626,814</u> |
| Total program and supporting services | <u>4,266,149</u> | <u>-</u> | <u>-</u> | <u>4,266,149</u> |
| Increase in net assets | 47,783 | 7,397 | - | 55,180 |
| Net assets - beginning of year | <u>1,022,324</u> | <u>25,000</u> | <u>-</u> | <u>1,047,324</u> |
| Net assets - end of year | <u>\$ 1,070,107</u> | <u>\$ 32,397</u> | <u>\$ -</u> | <u>\$ 1,102,504</u> |

See accompanying notes to financial statements.

NEW HORIZONS CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2006

| | <u>Program Services</u> | | | |
|------------------------------------|-------------------------------|-------------------------------------|--------------------------|------------------------|
| | <u>Adult Day Services</u> | <u>Community Based Services</u> | <u>Burkett House</u> | <u>Eanes House</u> |
| Personnel services | \$ 797,313 | \$ 567,223 | \$ 151,207 | \$ 121,935 |
| Payroll taxes | 89,086 | 39,820 | 13,210 | 9,496 |
| Fringe benefits | 8,200 | 147 | 1,363 | 1,731 |
| Total personnel costs | 894,699 | 607,190 | 165,780 | 133,162 |
| Client wages and related expenses | 113,934 | 162,720 | - | - |
| Insurance | 44,692 | 50,064 | 23,201 | 24,846 |
| Telephone and utilities | 43,954 | 19,367 | 6,978 | 5,199 |
| Postage and shipping | - | - | - | - |
| Subscriptions and publications | - | 440 | 320 | 34 |
| Printing | 337 | - | - | - |
| Communications | 84 | 367 | 224 | 224 |
| Rental | 3,000 | 7,571 | - | - |
| Repairs and maintenance | 23,065 | 13,862 | 2,004 | 2,176 |
| Vehicle expense | - | 12,570 | 4,743 | 3,508 |
| Supplies | 41,933 | 81,047 | 2,331 | 1,677 |
| Travel | 29,555 | 7,290 | 1,185 | 1,495 |
| Living expenses | - | - | 253 | - |
| Miscellaneous | 2,493 | (745) | 77 | 569 |
| Memberships | 25 | - | - | - |
| Professional fees | 2,440 | 4,296 | 344 | 1,121 |
| Seminars | 735 | 495 | 65 | 25 |
| Food and beverage | 1,296 | 159 | 8,057 | 9,329 |
| Interest | 2,230 | - | - | - |
| Total expenses before depreciation | 1,204,733 | 966,693 | 215,562 | 183,365 |
| Depreciation | 51,707 | 4,180 | 8,863 | 6,559 |
| Total expenses | \$ 1,256,440 | \$ 970,873 | \$ 224,425 | \$ 189,924 |

See accompanying notes to financial statements.

| <u>Program Services (continued)</u> | | | | <u>Supporting Services</u> | | <u>Total Expenses</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> | |
| \$ 142,487 | \$ 151,204 | \$ 382,633 | \$ 2,314,302 | \$ 353,465 | \$ 9,271 | \$ 2,677,038 |
| 11,357 | 11,850 | 28,611 | 203,430 | 26,866 | 1,410 | 231,706 |
| 933 | 1,597 | 1,617 | 15,588 | 5,551 | 202 | 21,341 |
| 154,777 | 164,651 | 412,861 | 2,533,320 | 385,882 | 10,883 | 2,930,085 |
| - | - | - | 276,654 | - | - | 276,654 |
| 19,455 | 22,074 | 38,572 | 222,904 | 62,731 | 118 | 285,753 |
| 657 | 655 | 14,868 | 91,688 | 10,457 | - | 102,145 |
| - | - | - | - | 2,673 | - | 2,673 |
| 36 | 180 | 2,899 | 3,909 | 4,359 | - | 8,268 |
| - | - | - | 337 | 1,059 | 3,725 | 5,121 |
| 675 | 767 | 5,387 | 7,728 | 693 | - | 8,421 |
| - | - | 40,965 | 51,536 | 7,205 | - | 58,741 |
| 535 | 617 | 29 | 42,289 | 6,598 | - | 48,887 |
| 4,249 | 5,252 | 22 | 30,344 | 4,259 | - | 34,603 |
| 1,909 | 1,928 | 692 | 131,517 | 13,222 | 12,393 | 157,132 |
| 1,183 | 4,830 | 28,572 | 74,110 | 431 | 407 | 74,948 |
| - | - | 1,798 | 2,051 | - | - | 2,051 |
| 498 | 2,694 | 11,067 | 16,653 | 11,873 | 6,697 | 35,223 |
| - | - | - | 25 | 4,339 | - | 4,364 |
| 409 | 463 | 879 | 9,952 | 51,614 | 630 | 62,196 |
| 220 | 190 | 190 | 1,970 | 735 | - | 2,705 |
| 9,116 | 7,839 | 32,596 | 68,392 | 2,056 | - | 70,448 |
| - | - | - | 2,230 | 10,062 | - | 12,292 |
| 193,719 | 212,140 | 591,397 | 3,567,639 | 580,248 | 34,853 | 4,182,710 |
| - | 417 | - | 71,726 | 11,713 | - | 83,439 |
| \$ 193,719 | \$ 212,557 | \$ 591,397 | \$ 3,639,335 | \$ 591,961 | \$ 34,853 | \$ 4,266,149 |

NEW HORIZONS CORPORATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006

| | | |
|--|-----------------|------------------|
| Cash Flows From Operating Activities: | | |
| Increase in net assets | \$ | 55,180 |
| Adjustments to reconcile increase in net assets: | | |
| to net cash used in operating activities: | | |
| Depreciation | \$ | 83,439 |
| Changes in: | | |
| Accounts receivable and deferred revenue | 262,713 | |
| Prepaid expenses | 17,775 | |
| Accounts payable | 29,470 | |
| Accrued expenses | <u>(15,222)</u> | |
| Total adjustments | | <u>378,175</u> |
| Net cash provided by operating activities | | 433,355 |
| Cash Flows from Investing Activities: | | |
| Purchases of land, building, and equipment | <u>(70,186)</u> | |
| Net cash used in investing activities | | (70,186) |
| Cash Flows from Financing Activities: | | |
| Net change in line of credit | (250,000) | |
| Payments on note payable | <u>(27,866)</u> | |
| Net cash used in financing activities | | <u>(277,866)</u> |
| Net increase in cash and cash equivalents | | 85,303 |
| Cash and cash equivalents - beginning of year | | <u>160,285</u> |
| Cash and cash equivalents - end of year | \$ | <u>245,588</u> |

Supplemental Cash Flow Information:

Interest paid during the year ended June 30, 2006, was \$12,292.

NEW HORIZONS CORPORATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006, 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, 2006, accounts receivable consisted of the following:

| <u>Vendor</u> | <u>Amount</u> |
|----------------------|-------------------|
| State of Tennessee | \$ 240,412 |
| CMRA | 86,768 |
| DHS/Vocational Rehab | 4,500 |
| Special Housing | 6,250 |
| Other | <u>41,065</u> |
| | <u>\$ 378,995</u> |