

APHESIS HOUSE, INC.
NASHVILLE, TENNESSEE
DECEMBER 31, 2005

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RONALD H. STEWART
Certified Public Accountant
1098 DRY FORK ROAD
ASHLAND CITY, TN 37015
615-792-3125

MEMBER
TENNESSEE ASSOCIATION
OF ACCOUNTANTS

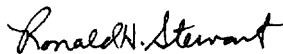
MEMBER
NATIONAL SOCIETY
OF ACCOUNTANTS

Board of Directors
Aphesis House, Inc.
1124 Fourth Ave. South
Nashville, TN 37210

I have audited the accompanying statement of financial position - modified cash basis of Aphesis House, Inc. as of December 31, 2005, and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America.. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the statement of financial position - modified cash basis of Aphesis House, Inc. at December 31, 2005, and the statement of activities and changes in net assets and cash flows for the year then ended, on the basis of accounting described in Note 2.



Ronald H. Stewart
Certified Public Accountant

December 20, 2006

APHESIS HOUSE, INC.
(A Tennessee Corporation)
STATEMENT OF FINANCIAL POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2005

Assets

Current assets		
Cash		\$ 1,732
Property and equipment, at cost (Notes 2 & 3)		
Furniture, fixtures, and equipment	5,125	
Leasehold improvements	<u>3,700</u>	
	8,825	
Less: accumulated depreciation	<u>441</u>	
		<u>8,384</u>
Total assets		\$ 10,116 =====

Liabilities and Net Assets

Current liabilities		
Total Current Liabilities		\$ 00
Net assets		
Unrestricted		<u>10,116</u>
Total liabilities and net assets		\$ 10,116 =====

See notes to financial statements

APHESIS HOUSE, INC.
(A Tennessee Corporation)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2005

Changes in unrestricted net assets:

Revenues, gains, and other support:

Contributions	\$ 22,230
Program fees	<u>30,588</u>

Total revenues and gains:	52,818
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Operating expenses:

Advertising	220
Bank charges	3
Building lease	10,950
Contract services	15,974
Depreciation (Notes 2 & 3)	441
Food	190
Maintenance - buildings	1,053
Maintenance - equipment	579
Office supplies and expenses	1,961
Other operating costs	790
Professional services	3,143
Refunds	460
Telephone	2,142
Travel	830
Utilities	4,721
Vehicle expenses	<u>545</u>
Total operating expenses	<u>44,002</u>

Increase in unrestricted net assets	8,816
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Net assets at beginning of year	<u>1,300</u>
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Net assets at end of year	\$ <u>10,116</u>
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See notes to financial statements

APHESIS HOUSE, INC.
(A Tennessee Corporation)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Net Income	\$ 8,816
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation	<u>441</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,257

CASH FLOWS FROM INVESTING ACTIVITIES

Acquisitions of permanent assets	<u>(8,825)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	432
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,300</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,732</u>

See notes to financial statements

APHESIS HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Note 1: ORGANIZATION

Aphesis House, Inc. is a nonprofit corporation chartered under the applicable laws of the State of Tennessee November 18, 2002.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared on the modified cash basis of accounting. Accordingly, certain revenues and related assets are recognized when received rather than when earned. In addition, certain expenses are recognized when paid rather than when the obligation is incurred.

Estimates - The preparation of financial statements in conformity with the generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for uncollectible accounts and amounts to be received under third party contractual agreements. In connection with the calculation of these allowances, management utilizes the criteria described above.

Fixed assets are recorded at cost. Depreciation is recorded based upon the straight-line method over the estimated useful lives of the assets. Such useful lives are as follows:

Furniture, equipment and leasehold improvement 7 to 39 years

Note 3: FIXED ASSETS

During the year ended December 31, 2005, depreciation expense was recorded as follows:

Furniture, equipment and leasehold improvements \$441

APHESIS HOUSE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

Note 4: OPERATING LEASE

On April 10, 2004 a lease was signed for the organization's location in Nashville for one year with an option to renew for four more years ending in April 2009. The following is a schedule of years of future minimum rental payments required under the operating lease:

<u>Year Ended</u> <u>December 31</u>	
2006	\$10,600
2007	11,200
2008	11,800
2009	<u>4,000</u>
	<u>\$37,600</u>
	=====

Note 5: TAX STATUS

The organization is chartered as a nonprofit organization with the Tennessee Secretary of State. Effective April 6, 2004 the Internal Revenue Service has determined the organization is exempt from Federal Income Tax under the U.S. Internal Revenue Code Section 501(c)(3). This is an advance ruling period beginning November 18, 2002 and ending December 31, 2006. During this period the organization will be treated as a public charity. At the end of the period the organization will have to supply information to the Internal Revenue Service proving the organization is still in compliance with the public charity regulations.