NEW HORIZONS, INC.

SHREVEPORT, LOUISIANA

SEPTEMBER 30, 2003 AND 2002

NEW HORIZONS, INC.

SHREVEPORT, LOUISIANA

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January 8, 2004

To the Board of Directors
New Horizons, Inc.
Shreveport, Louisiana

<u>Independent Auditor's Report</u>

We have audited the accompanying statements of financial position of New Horizons, Inc. (a nonprofit organization) as of September 30, 2003 and 2002, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the entity'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, 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 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 New Horizons, Inc. as of September 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years 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 a report dated January 8, 2004 on our consideration of New Horizons, Inc.'s internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the result of our audits.

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NEW HORIZONS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2003 AND 2002

ASSETS	2003	2002
Current assets:		
Cash (Note 2)	58,404	7,312
Grant receivables (Note 3)	161,425	199,901
Total current assets	219,829	207,213
Property and equipment: (Note 4)		
Property and equipment	18,282	46,250
Accumulated depreciation	(14,248)	(41,410)
Net property and equipment	4,034	4,840
Other assets:		
Deposits	4,848	4,173
Total assets	228,711	216,226
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	12,594	74,925
Accrued liabilities (Note 7)	160,285	192,521
Line of credit (Note 8)	2,235	-
Total current liabilities	175,114	267,446
Net assets:		
Unrestricted:		
Operating (deficit)	49,563	(56,060)
Fixed assets	4,034	4,840
Total net assets (deficit)	53,597	(51,220)
Total liabilities and net assets	228,711	216,226

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

NEW HORIZONS, INC.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
Revenues and other support:		
Contractual revenue-grants (Note 5)	774,270	917,018
Medicaid contract (Note 5)	1,207,288	588,346
Gain (loss) on sale of property (Note 4)	(1,092)	16,316
Miscellaneous revenues	1,854	3,665
Total revenues and other support	1,982,320	1,525,345
Expenses:		
Medicaid	963,827	586,977
Traumatic head and spinal cord injury	244,449	252,619
Title VII Part C	181,587	177,037
Rural independent living	91,496	98,619
LRS-Personal Care Assistance	52,716	80,826
Deaf Action Center	-	4,404
Durable Medical Equipment	105,407	82,571
Personal Care Assistance Program	24,626	37,338
Title VII Part B	15,512	28,200
Office for Citizens with Developmental Disabilities	22,310	73,236
Supported living	87,116	109,324
General administration and other	88,457	53,287
Total expenses	1,877,503	1,584,438
Change in net assets	104,817	(59,093)
Net assets (deficit), beginning of year	(51,220)	7,873
Net assets (deficit), end of year	53,597	(51,220)

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

NEW HORIZONS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

	2003	2002
Cash flows from operating activities:		
Change in net assets	104,817	(59,093)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,842	7,406
(Gain) loss on sale of property	1,092	(16,316)
(Increase) decrease in operating assets:		
Grant receivables	38,476	(36,580)
Deposits	(675)	(4,173)
Increase (decrease) in operating liabilities:		
Accounts payable	(62,331)	65,321
Accrued liabilities	(32,236)	13,381
Net cash provided (used) by operating activities	52,985	(30,054)
Cash flows from investing activities:		
Proceeds from sale of property and equipment, net	-	126,519
Purchases of property and equipment	(4,128)	-
Net cash provided (used) by investing activities	(4,128)	126,519
Cash flows from financing activities:		
Draws (payments) on line of credit, net	2,235	(107,600)
Net cash provided (used) by financing activities	2,235	(107,600)
Net increase (decrease) in cash	51,092	(11,135)
Cash at beginning of year	7,312	18,447
Cash at end of year	58,404	7,312

Interest paid during the years ended September 30, 2003 and 2002 was $135 and $4,904, respectively.

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

1. Summary of Significant Accounting Policies

A. *Nature of Activities*

New Horizons, Inc. (New Horizons), is a nonprofit corporation under the laws of the State of Louisiana. New Horizons was established to provide an opportunity for severely handicapped persons to participate in a broad activities program, including community activities, recreation, and other services, to make possible a broader life enrichment program for handicapped persons. The following programs are administered by New Horizons, shown with their approximate percentages of total revenue:

Medicaid - 61%
Traumatic head and spinal cord injury - 7%
Title VII Part C - 9%
Rural Independent Living - 5%
LRS - Personal Care Assistance - 4%
Personal Care Assistance Program - 1%
Title VII Part B - 1%
Office for Citizens with Development Disabilities - 2%
Supported Living - 4%
General Administration - 1%
Durable Medical Equipment - 5%

B. *Basis of Accounting*

The financial statements of New Horizons have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

C. *Basis of Presentation*

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*. Under SFAS No. 117, the Organization 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. New Horizons had only unrestricted net assets at September 30, 2003 and 2002.

D. *Income Tax Status*

New Horizons is a tax-exempt organization as described in Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Services as an organization other than a private foundation. New Horizons, therefore, is not subject to income taxes. However, income from certain activities not directly related to New Horizon's tax-exempt purpose is subject to taxation as unrelated business income. New Horizons had no such income for the years ended September 30, 2003 and 2002.

1. Summary of Significant Accounting Policies (Continued)

E. *Use of Estimates*
Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*
New Horizon's cash, as stated for cash flow purposes, consists of interest-bearing and noninterest bearing bank accounts. New Horizons has no other assets that are considered cash equivalents.

G. *Property and Equipment*
Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The State of Louisiana and the federal government have a reversionary interest in property purchased with state and federal funds. Its disposition as well as the ownership of any proceeds therefrom is subject to state and federal regulations. All expenditures in excess of $250 for property and equipment are capitalized.

H. *Revenue and Support*
Contributions received may be recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contractual grant revenue is reported as unrestricted support due to the restrictions placed on those funds by the funding sources being met in the same reporting period as the revenue is earned.

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 ends 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.

I. *Retirement Obligations*
The employees of New Horizons are members of the Social Security System. There are no other retirement plans available through New Horizons.

J. *Expense Allocation*
The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

1. Summary of Significant Accounting Policies (Continued)

K. *Compensated Absences*
Annual leave is earned by employees as follows:

Length of Service	Annual Leave Earned
One year	One week
Over one year	Two weeks

Generally, up to four weeks of unused annual leave may be carried over to succeeding fiscal years.

Sick leave is earned at the rate of one day per calendar month of employment, and accumulates up to twelve days. Employees are not compensated for unused sick leave at termination.

2. Concentrations of Credit Risk
Financial instruments that potentially subject New Horizons to concentrations of credit risk consist principally of temporary cash investments and grant receivables. Concentrations of credit risk with respect to grant receivables are limited due to these amounts being due from governmental agencies under contractual terms. As of September 30, 2003 and 2002, New Horizons had no significant concentrations of credit risk in relation to grant receivables. New Horizons maintains cash balances at one financial institution. Accounts at this institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At September 30, 2003 and 2002, there were no uninsured balances at these institutions.

3. Grant Receivables
Various funding sources provide reimbursement of allowable costs and payment on units of service in connection with providing services under contracts or agreements. This balance represents amounts due from funding sources at September 30, 2003 and 2002, but received after those dates.

4. Property and Equipment
Property and equipment consisted of the following at September 30, 2003 and 2002:

	Estimated Depreciable Life	2003	2002
Furniture and equipment	5 - 7 years	18,282	46,250
Accumulated depreciation		(14,248)	(41,410)
Net investment in property and equipment		4,034	4,840

New Horizons sold its building in July 2002 for $126,519, and began leasing space for its main office. Such building had a book value of $110,203, resulting in a gain of $16,316.

Depreciation expense for the years ended September 30, 2003 and 2002 was $3,842 and $7,406, respectively.

5. Contractual Revenue - Grants and Medicaid

During the years ended September 30, 2003 and 2002, New Horizons received contractual revenue from federal and state grants in the amount of $1,981,558 and $1,505,364, respectively. The continued existence of these funds is based on annual contract renewals with various funding sources. All revenue from these grants is subject to audit and retroactive adjustment by the respective third-party fiscal intermediaries; adjustments in future periods may be necessary as final grant settlements are determined.

6. Leases

New Horizons leases space and equipment under several operating leases. Rental costs on those leases for the years ended September 30, 2003 and 2002 were $71,000 and $26,000, respectively. Commitments under lease agreements having initial or remaining noncancelable terms in excess of one year as of September 30, 2003 are as follows:

September 30, 2004	73,385
September 30, 2005	73,385
September 30, 2006	63,273
September 30, 2007	46,003
September 30, 2008	-
Total	256,046

7. Accrued Liabilities

Accrued liabilities at September 30, 2003 and 2002 consisted of the following:

	2003	2002
Accrued payroll	52,923	34,662
Accrued leave	15,555	11,490
Payroll taxes payable	91,807	146,369
	160,285	192,521

8. Line of Credit

New Horizons maintained a $115,000 revolving line of credit. Bank advances on the credit line were payable on demand and carried an interest rate ranging from 5.75% to 7.50%. The credit line was secured by real estate of New Horizons, and was repaid from the proceeds of the sale of property in July 2002, and subsequently canceled.

The Organization maintains another credit line for up to $10,000. Rates on borrowings on this line ranged from 6.00% during the year, to 5.75% on the $2,235 balance outstanding at September 30, 2003.

9. Conditional Promises

Conditional promises consist of the unfunded portions of approved governmental awards, either currently in effect or approved for commencement after September 30, 2003. Future funding of such awards is conditioned upon New Horizon's operation of certain programs, incurrence of certain costs, and possibly meeting certain matching requirements. Because such awards represent conditional promises to New Horizons, they have not been recognized in the financial statements at September 30, 2003. Such conditional promises amounted to approximately $788,000 at September 30, 2003.

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January 8, 2004

To the Board of Directors
New Horizons, Inc.
Shreveport, Louisiana

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

We have audited the financial statements of New Horizons, Inc. as of and for the year ended September 30, 2003, and have issued our report thereon dated January 8, 2004. 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.

Compliance
As part of obtaining reasonable assurance about whether the financial statements of New Horizons, Inc. are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with these provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 2003-01.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered New Horizons, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of New Horizons, Inc. in a separate letter dated January 8, 2004.

This report is intended solely for the information and use of management, the Board of Directors 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.

Heard, McElroy + Vestal, LLP

NEW HORIZONS, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED SEPTEMBER 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of New Horizons, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported.
3. No instances of noncompliance material to the financial statements of New Horizons, Inc. were disclosed during the audit.
4. New Horizons, Inc. was not subject to a Single Audit under the provisions of OMB Circular A-133 for the year ended September 30, 2003.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

2003-01 - Compliance Finding

Statement of Condition: New Horizons, Inc. charged audit costs of $1,943 to Federal Awards Program VII C during the year.

Criteria: OMB Circular A-133 prohibits a non-Federal entity which is exempted from having a Single Audit from charging audit cost to a Federal Awards Program.

Effect of Condition: New Horizons sought reimbursements totaling $1,943 in excess of that allowed by law.

Recommendation: We recommend that the agency take the necessary steps to prevent claiming reimbursement for audit costs from Federal agencies unless the entity has a Single Audit performed.

Response: We have implemented the procedures necessary to prevent audit costs from being charged to Federal Awards Programs unless such costs include a Single Audit.

NEW HORIZONS, INC.

SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE YEAR ENDED SEPTEMBER 30, 2003

The prior year findings and questioned costs for the audit period ended September 30, 2002 are addressed below:

2002-01: Untimely Submission of Audit Report to Louisiana Legislative Auditor.

Cleared.

2002-02: Lack of Purchase Order Support for Certain Expenditures.

Substantially cleared.

2002-03: Lack of Invoice Support.

Substantially cleared.

2002-04: Lack of Documentation of Competitive Price Quotations.

Cleared.

2002-05: Lack of Deposit of Payroll Taxes to Governmental Authorities.

Cleared.

2002-06: Deficit in Operating Net Assets.

Cleared.

The prior year management letter comments for the year ended September 30, 2002 are addressed below:

Comment #1: Conflict of Interest Policy

Partially resolved; Board is currently formulating.

Comment #2: Held Checks

Cleared.

Comment #3: Cost Allocations

Cleared.

Comment #4: Inadequate Supporting Documents

Cleared.

Comment #5: Lack of Support for Billings

Cleared.

NEW HORIZONS, INC.

CORRECTIVE ACTION PLAN FOR MANAGEMENT LETTER COMMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 2003

(1) Lack of Invoice Support

Management continues to stress to its employees that no checks are to be issued without a supporting original invoice. The exceptions noted occurred early during the fiscal year.

(2) Lack of Purchase Orders

Management also continues to stress to its employees that no checks are to be issued without a supporting purchase order. The exceptions noted occurred early during the fiscal year.

(3) Lack of Price Quotations

All applicable purchase requests are now accompanied by a Bid Summary Sheet, which must be completed prior to submission of the purchase request. The Bid Summary Sheet lists the quotations from vendors, vendor selected, and reason for selection.

(4) Incompatible Duties

PCA time cards are now approved by two independent PCA coordinators, and then given to a payroll clerk responsible for inputting the payroll data and producing the payroll checks.

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January 8, 2004

To the Board of Directors
New Horizons, Inc.
Shreveport, Louisiana

We have audited the financial statements of New Horizons, Inc. (New Horizons), for the year ended September 30, 2003, and have issued our report thereon dated January 8, 2004. In planning and performing our audit of the financial statements of New Horizons, Inc., we considered its internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

During our audit, certain matters were noted involving internal controls over financial reporting and other operational matters which appear to merit your attention for consideration to improve the internal control or operations of New Horizons. These comments have been discussed with the appropriate members of management.

(1) INADEQUATE SUPPORTING DOCUMENTS

During our testing of certain expenses and cash disbursements, we noted two checks that had no documentary invoice support. We recommend that checks be issued only from original vendor invoices or other third-party which have been given proper supervisory approval, and that the Organization retain all support in an orderly manner.

(2) LACK OF PURCHASE ORDERS

Our testing of cash disbursements indicated two checks that had no approved purchase order. According to its policies, New Horizons should support all disbursements with an approved purchase order, before the check is issued.

(3) LACK OF PRICE QUOTATIONS

We noted three instances where disbursements for procurements were not supported by a sufficient number of vendor price quotations. New Horizons policy requires three vendor quotations for purchases between $2,000 and $5,000, and five formal bids for purchases over $5,000.

(4) INCOMPATIBLE DUTIES

Beginning in October 2003, PCA time cards are being approved by the same payroll clerk responsible for inputting the related payroll data and producing payroll checks. Because these are incompatible duties, we recommend that a separate member of PCA management approve these time cards for payment.

Henry McElroy + Vestal, LLP