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New Horizons, Inc.
Shreveport, Louisiana

Financial Statements

As of and For the Years Ended September 30, 1999 and 1998

New Horizons, Inc.

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COOK & MOREHART

Certified Public Accountants

1215 HAWN AVENUE • SHREVEPORT, LOUISIANA 71107 • P.O. BOX 78240 • SHREVEPORT, LOUISIANA 71137-8240

TRAVIS H. MOREHART, CPA
A. EDWARD BALL, CPA

VICKIE D. NOBLE, CPA
CHERYL H. MANGRUM, CPA

TELEPHONE (318) 222-5415 FAX (318) 222-5441

RAYEBURN G. COOK (RET.)

MEMBER
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Directors
New Horizons, Inc.

We have audited the accompanying statements of financial position of New Horizons, Inc. (a nonprofit organization) as of September 30, 1999 and 1998, 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 generally accepted auditing standards 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 audits 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. at September 30, 1999 and 1998, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 15, 2000 on our consideration of New Horizons, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Cook & Morehart

Cook & Morehart
Certified Public Accountants
March 15, 2000

New Horizons, Inc.
Statements of Financial Position
September 30, 1999 and 1998

	1999	1998
Assets		
Current assets:		
Cash	$ 39,038	$ 14,092
Grant receivables	131,188	155,111
Other receivables	9,146	1,300
Other assets		2,983
Total current assets	179,372	173,486
Property and equipment:		
Property and equipment	234,545	230,923
Accumulated depreciation	(90,407)	(77,111)
Net property and equipment	144,138	153,812
Total Assets	$ 323,510	$ 327,298
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	$ 9,349	$ 6,811
Accrued expenses	32,951	30,153
Other liabilities	1,858	
Line of credit	41,192	
Total current liabilities	85,350	36,964
Net assets:		
Unrestricted:		
Operating	94,022	136,522
Fixed assets	144,138	153,812
Total net assets	238,160	290,334
Total Liabilities and Net Assets	$ 323,510	$ 327,298

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

New Horizons, Inc.
Statements of Activities
For the Years Ended September 30, 1999 and 1998

	1999	1998
Revenues and Other Support:		
Contractual revenue - grants	$ 1,039,518	$ 922,107
Medicaid contract	485,052	556,009
Miscellaneous revenues	7,388	19,419
Total revenues and other support	1,531,958	1,497,535
Expenses:		
Medicaid	470,124	484,113
Traumatic head and spinal cord injury	417,211	476,957
Title VII Part C	155,299	135,960
Rural Independent Living	116,792	99,565
LRS - Personal Care Assistance	57,941	58,772
Deaf Action Center	82,507	81,980
Personal Care Assistance Program	43,270	35,076
Title VII Part B	23,301	33,895
Americans with Disabilities Act		9,554
Office for Citizens with Developmental Disabilities	5,685	1,145
Supported Living	147,958	
General administration	64,044	42,806
Total expenses	1,584,132	1,459,823
Changes in net assets	(52,174)	37,712
Net assets, beginning of year	290,334	252,622
Net assets, end of year	$ 238,160	$ 290,334

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

New Horizons, Inc.
Statements of Cash Flows
For the Years Ended September 30, 1999 and 1998

Operating Activities	1999	1998
Change in net assets	$ (52,174)	$ 37,712
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	13,296	12,803
(Increase) decrease in operating assets:		
Grant receivables	23,923	(10,509)
Other receivables	(7,846)	
Other assets	2,983	6,798
Increase (decrease) in operating liabilities:		
Accounts payable	2,538	5,112
Accrued liabilities	2,798	(1,639)
Other liabilities	1,858	
Net cash provided by operating activities	(12,624)	50,277
Investing Activities		
Payments for property and equipment	(3,622)	(10,555)
Net cash used in investing activities	(3,622)	(10,555)
Financing Activities		
Draws on line of credit	70,900	
Payments on line of credit	(29,708)	(41,269)
Payments on capital lease		(2,824)
Net cash used in financing activities	41,192	(44,093)
Net increase in cash	24,946	(4,371)
Cash as of beginning of year	14,092	18,463
Cash as of end of year	$ 39,038	$ 14,092

Interest paid during the years ended September 30, 1999 and 1998 was $2,539 and $2,133, 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 – 32%
Traumatic head and spinal cord injury – 28%
Title VII Part C – 11%
Rural Independent Living – 6%
LRS – Personal Care Assistance – 5%
Deaf Action Center – 5%
Personal Care Assistance Program – 2%
Title VII Part B – 1%
Americans with Disabilities Act – .1%
Office for Citizens with Development Disabilities – .1%
Supported Living – 9%
General Administration – 1%

B. Basis of Accounting

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

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.

(Continued)

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 Service 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 Horizons's tax-exempt purpose is subject to taxation as unrelated business income. New Horizons had no such income for this audit period.

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 Horizons's cash, as stated for cash flow purposes, consists of interest-bearing and non-interest 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.

H. Revenue and Support

Contributions received are 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 benefited.

(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, 1999 and 1998, New Horizons had no significant concentrations of credit risk in relation to grant receivables. New Horizons maintains cash balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000. At September 30, 1999 and 1998 there were no uninsured balances at these institutions. As of September 30, 1999 and 1998, New Horizons had no significant concentrations of credit risk.

(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, 1999 and 1998, but received after those dates.

(4) Property and Equipment

Property and equipment consisted of the following at September 30, 1999 and 1998:

	Estimated Depreciable Life	1999	1998
Furniture and equipment	5–7 years	$ 82,603	$ 78,981
Vehicles	5 years	24,442	24,442
Buildings	20–30 years	127,500	127,500
Accumulated depreciation		(90,407)	(77,111)
Net investment in property and equipment		$ 144,138	$ 153,812

Depreciation expense for the year ended September 30, 1999 and 1998 was $13,296 and $12,803, respectively.

(Continued)

(5) Contractual Revenue – Grants

During the years ended September 30, 1999 and 1998, New Horizons received contractual revenue from federal and state grants in the amount of $1,524,570 and $1,478,116, respectively. The continued existence of these funds is based on annual contract renewals with various funding sources.

(6) Leases

New Horizons leases space and equipment under several operating leases. Rental costs on those leases for the years ended September 30, 1999 and 1998 were $14,758 and $23,100, respectively. Commitments under lease agreements having initial or remaining non–cancelable terms in excess of one year as of September 30, 1999 include $8,595 due in the year ended September 30, 2000.

(7) Accrued Liabilities

Accrued liabilities at September 30, 1999 and 1998 consisted of the following:

	1999	1998
Accrued payroll	$ 18,488	$ 26,230
Accrued leave	6,044	--
Payroll taxes payable	8,419	3,923
	$ 32,951	$ 30,153

(8) Line of Credit

New Horizons has a $90,000 revolving line of credit, of which $48,808 was unused at September 30, 1999. Bank advances on the credit line are payable on demand and carry an interest rate of 10.25%. The credit line is secured by real estate of New Horizons.

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RAYEBURN G. COOK (RET.)

MEMBER
AMERICAN INSTITUTE
CERTIFIED PUBLIC ACCOUNTANTS
SOCIETY OF LOUISIANA
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the New Horizons, Inc. as of and for the year ended September 30, 1999, and have issued our report thereon dated March 15, 2000. We conducted our audit in accordance with generally accepted auditing standards 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 New Horizons, Inc.'s financial statements 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards.*

Internal Control over Financial Reporting

In planning and performing our audit, we considered New Horizons, Inc.'s internal control over financial planning 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 over financial reporting 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 certain matters involving internal control over financial reporting that we have reported to management in a separate management letter dated March 15, 2000.

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.

Cook & Morehart

Cook & Morehart
Certified Public Accountants
March 15, 2000

New Horizons, Inc.
Shreveport, Louisiana
Summary Schedule of Prior Audit Findings for Louisiana Legislative Auditor
September 30, 1999

The prior year management letter comments are addressed below for the year ended September 30, 1998:

Comment #1: Signature Stamps

Adequate control is now maintained on the signature stamps. As of October 1, 1998, no signature stamps are kept on the premises of New Horizons. Those who stamp checks retain control of their stamps and bring them when necessary for the purpose of signing checks.

Comment #2: Reconciliation of Bank Accounts

See related comment in current year management letter.

Comment #3: Accounts Receivable Subsidiary Listing

See related comment in current year management letter.

Comment #4: Payroll Liability Accounts

See related comment in current year management letter.

Comment #5: Travel Expense Documentation

All travel expenses as of October 1, 1998 are supported with adequate documentation prior to the issuing of checks for reimbursement.

Comment #6: Late Issuance of Audit Report

The auditing firm originally contracted to complete the New Horizons audit report for 1997–98 defaulted on the terms of agreement and another firm was contracted, with the approval of the State Legislative Auditor's Office.

Audit for the year ended September 30, 1999 will be submitted timely.

Comment #7: Fixed Asset Inventory

See related comment in current year management letter.

New Horizons, Inc.
Shreveport, Louisiana
Summary Schedule of Current Year Audit Findings for Louisiana Legislative Auditor
September 30, 1999

There were no findings or questioned costs for the current audit period ended September 30, 1999.

The corrective action plan for the management letter comments for the year ended September 30, 1999 are addressed below:

Comment #1: Reconciliation of Bank Accounts

Main operating account is being reconciled on a monthly basis. All activity on our operating account is being entered on a monthly basis. Our only other account, which is the Contribution account, will be reconciled on a monthly basis.

Comment #2: Accounts Receivable Subsidiary Listing

All accounts receivable will be reconciled on a monthly basis.

Comment #3: Liability Accounts

Unemployment Taxes (SUTA) will be distributed to appropriate funding sources on a monthly basis.

Comment #4: Fixed Asset Inventory

We are currently updating our inventory list.

Comment #5: Payroll Tax Reports

Reconciliation to the general ledger for each payroll account is being done.

Comment #6: Account Codings

Director of Administration will review all account codings on accounts payable invoices before they are posted and set up for payment.

Comment #7: Payroll Allocations

Any changes to previously approved allocations to payroll will be approved by the Executive Director or the Director of Administration.

COOK & MOREHART

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Management Letter

March 15, 2000

Board of Directors
New Horizons, Inc.
Bossier City, Louisiana

We have audited the financial statements of New Horizons, Inc. (New Horizons), for the year ended September 30, 1999, and have issued our report thereon dated March 15, 2000. 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) RECONCILIATION OF BANK ACCOUNTS

During our audit we noted that all activity of New Horizons' cash accounts was not being entered in the organization's general ledger and all bank accounts were not being reconciled to the general ledger on a monthly basis. The general operating account was being reconciled but the other accounts were not consistently reconciled to the general ledger.

We recommend that all activity of all bank accounts be entered into the organization's general ledger on a monthly basis and that all bank accounts be reconciled to the general ledger on a monthly basis.

(2) ACCOUNTS RECEIVABLE SUBSIDIARY LISTING

New Horizons utilizes a detail accounts receivable subsidiary listing for all costs billed for various programs. The subsidiary listing was maintained within New Horizons' computerized accounting system, but was not reconciled to the general ledger.

We recommend that New Horizons reconcile the accounts receivable listing to the general ledger on a monthly basis.

(3) LIABILITY ACCOUNTS

During our audit we noticed that the accounts payable and payroll liabilities accounts on the general ledger were not being analyzed and corrected on a timely basis. An audit adjustment had to be made to correct the balances in the liability accounts.

We recommend that New Horizons analyze and review the accounts payable and payroll liability accounts on a monthly basis.

(4) FIXED ASSET INVENTORY

New Horizons began tracking their fixed assets during the year. However, we noted that the fixed asset inventory is not being reconciled to the general ledger.

We recommend that New Horizons continue to update their fixed asset records and reconcile the fixed asset inventory listing with the general ledger on an annual basis.

(5) PAYROLL TAX REPORTS

During our audit, we noted that the salaries reported on the organization's 941 quarterly payroll tax reports were not being reconciled to the salaries reported on the organization's general ledger.

We recommend that the amounts reported on the payroll tax reports be reconciled to the organization's general ledger each quarter.

(6) ACCOUNT CODINGS

During our audit, we noted that the Account Payable/Account Receivable Manager codes the general ledger account distributions of all invoices presented for payment. However, no one is currently reviewing the account codings for accuracy.

We recommend that the Director of Administration review the account codings of all invoices prior to payment and prior to entry into organization's accounting records.

(7) PAYROLL ALLOCATIONS

During our audit testing of payroll allocations, we noted that the payroll allocations posted to the organization's general ledger did not always agree with the allocation percentages as noted on the supporting documentation for the organization's payrolls.

We recommend that the payroll charges posted to the organization's general ledger be in agreement with the payroll allocation percentages noted on the payroll supporting documents.

We express sincere thanks to New Horizons personnel for the cooperation and assistance provided us during our audit. We are available to provide you assistance and consultation in the implementation of the above mentioned item. This letter is furnished solely for the use of management and the Board of Directors and is not intended to be used for any other purpose.

Cook & Morehart

Cook & Morehart
Certified Public Accountants