



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B34773

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

July 8, 2009

Board of Directors
New Hope Services, Inc.
and Subsidiaries
725 Wall St.
Jeffersonville, IN 47130

We have reviewed the audit report prepared by McCauley, Nicolas & Company, LLC, Independent Public Accountants, for the period July 1, 2007 to June 30, 2008. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of the New Hope Services, Inc. and Subsidiaries, as of June 30, 2008, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

STATE BOARD OF ACCOUNTS

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
Jeffersonville, Indiana

**REPORT ON AUDITS OF
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**for the years ended
June 30, 2008 and 2007**

CONTENTS

Independent Auditors' Report	2
Financial Statements:	
Consolidated Statements of Financial Position	3 and 4
Consolidated Statements of Activities	5 – 8
Consolidated Statements of Functional Expenses	9 and 10
Consolidated Statements of Cash Flows	11 and 12
Notes to Consolidated Financial Statements	13 – 24
Supplementary Information:	
Schedule of Expenditures of Federal Awards	25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	26 and 27
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	28 and 29
Schedule of Findings and Questioned Costs	30

INDEPENDENT AUDITORS' REPORT

Board of Directors
New Hope Services, Inc. and Subsidiaries
Jeffersonville, Indiana

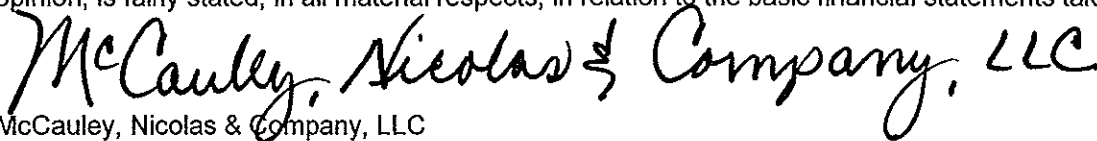
We have audited the accompanying consolidated statements of financial position of New Hope Services, Inc. and Subsidiaries (collectively, the "Agency") as of June 30, 2008 and 2007, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Agency'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 our 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 the significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2008 and 2007, 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 31, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements of New Hope Services, Inc. and Subsidiaries taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits 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 a whole.


McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 31, 2009

702 North Shore Drive, Suite 500 Jeffersonville, IN 47130-3104 812-288-6621 fax 812-288-2885 www.mnccpa.com

Kenneth N. Nicolas, CPA Ronald F. Barnes, CPA, PFS Lee E. Pieper, CPA J. Patrick Byrne, CPA
John C. Pieper, CPA Daniel K. McCauley, CPA, ABV J. Michael Grinnan, CPA Kenneth W. Coyle, CPA R. Kenneth Adams, CPA

MEMBER

PKF North American Network American Institute of CPAs AICPA PCPS Division Indiana CPA Society Kentucky Society of CPAs

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2008
with comparative totals for June 30, 2007

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>Comparative 2007 Total</u>
CURRENT ASSETS				
Cash	\$ 36,861	\$ -	\$ 36,861	\$ 27,309
Certificates of deposit	15,224	-	15,224	14,535
Accounts receivable - workshop contracts, net	43,667	-	43,667	35,384
Grants and fees receivable from governmental agencies	834,763	-	834,763	1,020,219
Other receivables	48,610	-	48,610	48,361
Pledges receivable, net	11,300	18,500	29,800	48,900
Notes receivable, current portion	-	-	-	119,000
Investments - available for sale	336,487	-	336,487	462,650
Inventory	8,703	-	8,703	11,659
Work-in-process	20,990	-	20,990	20,990
Other current assets	28,145	-	28,145	30,666
TOTAL CURRENT ASSETS	<u>1,384,750</u>	<u>18,500</u>	<u>1,403,250</u>	<u>1,839,673</u>
PROPERTY AND EQUIPMENT				
Land	263,844	-	263,844	263,843
Buildings and improvements	6,635,444	-	6,635,444	4,380,031
Equipment and vehicles	1,391,123	-	1,391,123	1,267,704
	8,290,411	-	8,290,411	5,911,578
Less accumulated depreciation	(2,816,392)	-	(2,816,392)	(2,539,633)
PROPERTY AND EQUIPMENT, NET	<u>5,474,019</u>	<u>-</u>	<u>5,474,019</u>	<u>3,371,945</u>
OTHER ASSETS				
Receivable - related party, less current portion, net	930,539	-	930,539	782,590
Pledges receivable, less current portion, net	7,053	8,587	15,640	48,500
Notes receivable - Housing Program	184,516	-	184,516	204,249
TOTAL OTHER ASSETS	<u>1,122,108</u>	<u>8,587</u>	<u>1,130,695</u>	<u>1,035,339</u>
TOTAL ASSETS	<u>\$ 7,980,877</u>	<u>\$ 27,087</u>	<u>\$ 8,007,964</u>	<u>\$ 6,246,957</u>
 <u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Short-term bank borrowings	\$ 872,559	\$ -	\$ 872,559	\$ 854,821
Notes payable, current portion	408,258	-	408,258	63,925
Bonds payable, current portion	82,842	-	82,842	78,850
Accounts payable	66,858	-	66,858	383,419
Accrued wages and other accrued liabilities	502,014	-	502,014	388,989
TOTAL CURRENT LIABILITIES	<u>1,932,531</u>	<u>-</u>	<u>1,932,531</u>	<u>1,770,004</u>
OTHER LIABILITIES				
Notes payable, less current portion	1,409,140	-	1,409,140	328,772
Bonds payable, less current portion	1,150,717	-	1,150,717	1,232,551
Other payable - Housing Program	151,806	-	151,806	171,337
TOTAL OTHER LIABILITIES	<u>2,711,663</u>	<u>-</u>	<u>2,711,663</u>	<u>1,732,660</u>
TOTAL LIABILITIES	<u>4,644,194</u>	<u>-</u>	<u>4,644,194</u>	<u>3,502,664</u>
NET ASSETS	<u>3,336,683</u>	<u>27,087</u>	<u>3,363,770</u>	<u>2,744,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,980,877</u>	<u>\$ 27,087</u>	<u>\$ 8,007,964</u>	<u>\$ 6,246,957</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2007

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>
CURRENT ASSETS			
Cash	\$ 27,309	\$ -	\$ 27,309
Certificates of deposit	14,535	-	14,535
Accounts receivable - workshop contracts, net	35,384	-	35,384
Grants and fees receivable from governmental agencies	1,020,219	-	1,020,219
Other receivables	48,361	-	48,361
Pledges receivable, net	18,800	30,100	48,900
Notes receivable, current portion	119,000	-	119,000
Investments - available for sale	462,650	-	462,650
Inventory	11,659	-	11,659
Work-in-process	20,990	-	20,990
Other current assets	30,666	-	30,666
TOTAL CURRENT ASSETS	<u>1,809,573</u>	<u>30,100</u>	<u>1,839,673</u>
PROPERTY AND EQUIPMENT			
Land	263,843	-	263,843
Buildings and improvements	4,380,031	-	4,380,031
Equipment and vehicles	1,267,704	-	1,267,704
	5,911,578	-	5,911,578
Less accumulated depreciation	(2,539,633)	-	(2,539,633)
PROPERTY AND EQUIPMENT, NET	<u>3,371,945</u>	<u>-</u>	<u>3,371,945</u>
OTHER ASSETS			
Receivable - related party, less current portion, net	782,590	-	782,590
Pledges receivable, less current portion, net	27,383	21,117	48,500
Notes receivable - Housing Program	204,249	-	204,249
TOTAL OTHER ASSETS	<u>1,014,222</u>	<u>21,117</u>	<u>1,035,339</u>
TOTAL ASSETS	<u>\$ 6,195,740</u>	<u>\$ 51,217</u>	<u>\$ 6,246,957</u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Short-term bank borrowings	\$ 854,821	\$ -	\$ 854,821
Notes payable, current portion	63,925	-	63,925
Bonds payable, current portion	78,850	-	78,850
Accounts payable	383,419	-	383,419
Accrued wages and other accrued liabilities	388,989	-	388,989
TOTAL CURRENT LIABILITIES	<u>1,770,004</u>	<u>-</u>	<u>1,770,004</u>
OTHER LIABILITIES			
Notes payable, less current portion	328,772	-	328,772
Bonds payable, less current portion	1,232,551	-	1,232,551
Other payable - Housing Program	171,337	-	171,337
TOTAL OTHER LIABILITIES	<u>1,732,660</u>	<u>-</u>	<u>1,732,660</u>
TOTAL LIABILITIES	3,502,664	-	3,502,664
NET ASSETS	<u>2,693,076</u>	<u>51,217</u>	<u>2,744,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,195,740</u>	<u>\$ 51,217</u>	<u>\$ 6,246,957</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

for the year ended June 30, 2008
with comparative totals for June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>Comparative 2007 Total</u>
PUBLIC SUPPORT AND REVENUE				
Public support received directly:				
Contributions	\$ 605,888	\$ 32,398	\$ 638,286	\$ 240,317
Public support received indirectly:				
Received from campaigns	<u>13,660</u>	<u>-</u>	<u>13,660</u>	<u>19,093</u>
TOTAL PUBLIC SUPPORT	<u>619,548</u>	<u>32,398</u>	<u>651,946</u>	<u>259,410</u>
GOVERNMENTAL AGENCIES' SUPPORT				
Program service fees	4,349,443	-	4,349,443	3,664,728
Grants	857,025	-	857,025	542,140
Taxes	<u>490,243</u>	<u>-</u>	<u>490,243</u>	<u>523,228</u>
TOTAL GOVERNMENTAL AGENCIES' SUPPORT	<u>5,696,711</u>	<u>-</u>	<u>5,696,711</u>	<u>4,730,096</u>
OTHER REVENUE				
Food and vending collections	8,033	-	8,033	11,551
Sheltered workshop income	431,636	-	431,636	419,317
Dividend and interest income	11,821	-	11,821	47,372
Loss on sale of property and equipment	-	-	-	14,739
Lease income	185,438	-	185,438	381,207
Child care income	219,233	-	219,233	180,443
Rental income - housing developments	81,790	-	81,790	-
Income from tax credit projects	12,000	-	12,000	12,500
Fundraisers	386	-	386	2,316
Thrift Store sales	113,952	-	113,952	56,342
Miscellaneous revenue	<u>40,560</u>	<u>-</u>	<u>40,560</u>	<u>81,406</u>
TOTAL OTHER REVENUE	<u>1,104,849</u>	<u>-</u>	<u>1,104,849</u>	<u>1,207,193</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>7,421,108</u>	<u>32,398</u>	<u>7,453,506</u>	<u>6,196,699</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES—Continued

for the year ended June 30, 2008
with comparative totals for June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>	<u>Comparative 2007 Total</u>
EXPENSES				
Program Services:				
Work Services	828,062	-	828,062	727,433
Habilitation and Placement	859,485	-	859,485	659,125
Rental Properties	701,735	-	701,735	518,568
Senior Care	179,174	-	179,174	140,799
Healthy Families	626,738	-	626,738	604,793
Child Care	439,761	-	439,761	447,349
Family Support and Preservation	833,698	-	833,698	619,947
Women Infant and Children (WIC)	443,136	-	443,136	327,665
Fundraising Campaign	77,962	56,528	134,490	19,045
Community Housing Development	199,038	-	199,038	333,044
Thrift Store Operations	221,682	-	221,682	231,770
Other Programs	31,239	-	31,239	7,981
Support Services:				
Administration	1,264,567	-	1,264,567	1,370,942
TOTAL EXPENSES	<u>6,706,277</u>	<u>56,528</u>	<u>6,762,805</u>	<u>6,008,461</u>
OTHER INCOME				
Unrealized gain (loss) on investments - available for sale	<u>(71,224)</u>	<u>-</u>	<u>(71,224)</u>	<u>45,157</u>
CHANGE IN NET ASSETS	643,607	(24,130)	619,477	233,395
NET ASSETS				
Beginning of year, as previously reported	<u>2,693,076</u>	<u>51,217</u>	<u>2,744,293</u>	<u>2,510,898</u>
End of year	<u>\$ 3,336,683</u>	<u>\$ 27,087</u>	<u>\$ 3,363,770</u>	<u>\$ 2,744,293</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support received directly:			
Contributions	\$ 228,975	\$ 11,342	\$ 240,317
Public support received indirectly:			
Received from campaigns	<u>19,093</u>	<u>-</u>	<u>19,093</u>
TOTAL PUBLIC SUPPORT	<u>248,068</u>	<u>11,342</u>	<u>259,410</u>
GOVERNMENTAL AGENCIES' SUPPORT			
Program service fees	3,664,728	-	3,664,728
Grants	542,140	-	542,140
Taxes	<u>523,228</u>	<u>-</u>	<u>523,228</u>
TOTAL GOVERNMENTAL AGENCIES' SUPPORT	<u>4,730,096</u>	<u>-</u>	<u>4,730,096</u>
OTHER REVENUE			
Food and vending collections	11,551	-	11,551
Sheltered workshop income	419,317	-	419,317
Dividend and interest income	47,372	-	47,372
Loss on sale of property and equipment	14,739	-	14,739
Lease income	381,207	-	381,207
Child care income	180,443	-	180,443
Income from tax credit projects	12,500	-	12,500
Fundraisers	2,316	-	2,316
Thrift Store sales	56,342	-	56,342
Miscellaneous revenue	<u>81,406</u>	<u>-</u>	<u>81,406</u>
TOTAL OTHER REVENUE	<u>1,207,193</u>	<u>-</u>	<u>1,207,193</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>6,185,357</u>	<u>11,342</u>	<u>6,196,699</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES—Continued
for the year ended June 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>
EXPENSES			
Program Services:			
Work Services	727,433	-	727,433
Habilitation and Placement	659,125	-	659,125
Rental properties	518,568	-	518,568
Senior Care	140,799	-	140,799
Healthy Families	604,793	-	604,793
Child Care	447,349	-	447,349
Family Support and Preservation	619,947	-	619,947
Women Infant and Children (WIC)	327,665	-	327,665
Fundraising Campaign	19,045	-	19,045
Thrift Store Operations	231,770	-	231,770
New Hope Development Services, LLC	333,044	-	333,044
Other programs	7,981	-	7,981
Support Services:			
Administration	<u>1,370,942</u>	<u>-</u>	<u>1,370,942</u>
 TOTAL EXPENSES	 <u>6,008,461</u>	 <u>-</u>	 <u>6,008,461</u>
 OTHER INCOME			
Unrealized gain on investments - available for sale	<u>45,157</u>	<u>-</u>	<u>45,157</u>
 CHANGE IN NET ASSETS	 222,053	 11,342	 233,395
 NET ASSETS			
Beginning of year	<u>2,471,023</u>	<u>39,875</u>	<u>2,510,898</u>
 End of year	 <u>\$ 2,693,076</u>	 <u>\$ 51,217</u>	 <u>\$ 2,744,293</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2008

	Work Services	Habilitation and Placement	Rental Properties	Senior Care	Healthy Families	Child Care	Family Support and Preservation	WIC	Fund-raising Campaign	Community Housing Development	Thrift Store Operations	Other Programs	Agency Administration	2008 Totals
SALARIES AND RELATED EXPENSES														
Salaries and wages	\$ 331,944	\$ 553,429	\$ 111,541	\$ 105,236	\$ 461,838	\$ 277,676	\$ 609,461	\$ 288,105	\$ 36,442	\$ 64,329	\$ 81,055	\$ 23,191	\$ 670,318	\$ 3,614,665
Employee benefits	46,475	52,055	16,857	13,843	50,429	37,721	62,136	35,607	5,491	12,500	5,128	2,069	135,023	475,334
Payroll taxes	36,227	39,723	8,072	9,031	34,278	19,799	43,681	20,410	2,957	5,219	5,834	2,046	43,650	272,927
	414,646	645,207	136,570	128,110	546,545	335,196	715,278	344,122	44,890	82,048	92,017	27,306	850,991	4,362,926
TOTAL SALARIES AND RELATED EXPENSES														
OPERATING EXPENSES														
Consulting and professional fees	4,770	8,802	2,327	443	1,031	2,375	2,946	3,991	46,717	1,867	8,048	149	118,319	201,785
Workshop materials and supplies	32,610	-	-	-	-	53,062	9,089	30,430	8,871	863	128	-	-	32,738
Supplies	3,089	5,478	48,765	1,582	9,855	2,867	10,711	5,347	286	2,351	6,678	72	18,371	196,205
Telephone	2,400	8,028	17,850	1,056	10,268	337	354	2,720	2,801	426	2,018	256	6,014	69,452
Postage and freight	2,891	360	2,539	14	980	337	547	2,801	2,801	426	8,086	233	2,771	24,512
Occupancy and lease expense	1,359	988	247,869	643	3,029	717	547	12,633	-	9,445	76,205	288	898	354,621
Equipment repairs and rental	1,793	249	6,517	89	120	540	7	20	-	181	687	-	705	10,908
Transportation	43,533	24,904	9,819	4,321	35,004	15,929	76,548	5,349	220	2,870	8,489	2,265	2,973	232,224
Conferences, conventions and meetings	3,160	5,543	631	652	5,624	2,251	8,381	2,713	437	9,291	882	364	33,735	73,664
Printing and publications	100	5,754	482	333	1,688	-	4,323	1,886	9,120	107	2,060	201	1,845	27,899
Wages - workshop clients	160,244	-	-	-	-	-	-	-	-	-	43	-	-	160,287
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	3,500	3,500
Licenses and royalties	14	33	-	8	-	-	-	-	-	-	-	-	175	230
Interest	-	-	66,417	-	-	-	-	-	-	24,653	-	-	132,445	223,515
Dues and subscriptions	102	276	136	26	630	415	231	180	848	723	17	24	16,261	19,869
Community housing expenses	17	45	21,767	8	546	69	157	2,687	-	37,148	1,715	7	9,722	73,888
Bad debt (recovery) expense, net	61,529	135,323	-	27,221	-	-	-	-	20,300	-	(171)	-	-	244,202
Miscellaneous expenses	55,809	10,443	42	9,664	6,414	20,999	5,126	31,058	-	7,061	14,780	74	11,144	172,614
TOTAL OPERATING EXPENSES	373,420	206,226	425,161	46,060	75,189	99,561	118,420	99,074	89,600	96,986	129,665	3,933	356,878	2,122,113
Total expenses before depreciation and amortization	788,066	851,433	561,731	174,170	621,734	434,757	833,698	443,136	134,490	179,034	221,682	31,239	1,209,869	6,485,039
Depreciation and amortization	39,986	8,052	140,004	5,004	5,004	5,004	-	-	-	20,004	-	-	54,698	277,766
TOTAL FUNCTIONAL EXPENSES	\$ 828,062	\$ 859,485	\$ 701,735	\$ 179,174	\$ 626,738	\$ 439,761	\$ 833,698	\$ 443,136	\$ 134,490	\$ 199,038	\$ 221,682	\$ 31,239	\$ 1,264,567	\$ 6,762,805

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2007

	Work Services	Habilitation and Placement	Rental Properties	Senior Care	Healthy Families	Child Care	Family Support and Preservation	WIC	Fund-raising Campaign	Thrift Store Operations	New Hope Development Services, LLC	Other Programs	Administration	2007 Totals
SALARIES AND RELATED EXPENSES														
Salaries and wages	\$ 322,345	\$ 519,755	\$ 80,853	\$ 104,755	\$ 451,219	\$ 257,935	\$ 444,055	\$ 163,195	\$ 36,657	\$ 40,721	\$ 153,261	\$ -	\$ 690,186	\$ 3,264,927
Employee benefits	52,263	47,309	10,605	12,499	47,247	32,538	44,386	17,413	4,875	1,991	17,348	-	206,020	494,494
Payroll taxes	38,245	37,507	5,964	8,800	33,566	18,544	32,256	11,689	2,998	3,028	11,215	-	46,561	250,373
TOTAL SALARIES AND RELATED EXPENSES	412,853	604,571	97,422	126,054	532,032	309,017	520,697	192,287	44,530	45,740	181,824	-	942,767	4,009,794
OPERATING EXPENSES														
Consulting and professional fees	4,049	-	2,624	-	1,247	5,498	7,700	5,175	15,515	13,253	7,455	-	105,107	167,623
Workshop materials and supplies	24,743	6	3	-	-	-	-	-	-	-	-	-	(2,067)	22,685
Supplies	1,919	4,011	40,353	1,078	10,666	38,824	3,660	119,930	7,219	3,825	2,696	213	21,546	255,960
Telephone	2,668	9,258	3,977	1,325	10,274	2,551	8,376	5,096	300	1,479	2,792	-	11,552	59,648
Postage and freight	3,002	328	889	50	1,315	339	204	1,021	840	5,000	374	-	3,012	16,374
Occupancy and lease expense	376	288	213,155	615	27	53,662	5,480	156	245	12,880	22,573	5,552	4,600	319,609
Equipment repairs and rental	4,486	364	3,548	131	-	5,671	113	-	-	693	437	-	255	15,698
Transportation	40,571	25,931	5,047	5,661	35,823	17,242	45,867	2,416	275	(3,802)	6,186	-	4,201	185,418
Conferences, conventions and meetings	1,172	4,631	455	770	7,145	4,238	8,872	1,100	1,126	204	5,268	-	35,204	70,185
Printing and publications	28	1,322	22	56	41	3	1,766	443	4,186	2,297	1,679	1,922	3,639	17,404
Wages - workshop clients	190,552	-	-	-	-	-	-	-	-	-	-	-	-	190,552
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	-	4,280
Licenses and royalties	-	-	-	-	-	-	-	-	-	-	-	-	-	360
Interest	198	-	2	-	-	-	16,565	1	-	-	-	-	132,122	148,888
Dues and subscriptions	204	146	50	20	6,203	554	565	40	434	75	770	-	15,746	24,807
Community housing expenses	616	217	1,021	35	-	3,750	82	-	-	-	894	-	8,142	14,757
Bad debt (recovery) expense, net	-	-	-	-	-	-	-	-	(55,625)	(7)	100,048	-	-	44,416
Miscellaneous expenses	-	-	-	-	-	-	-	-	-	-	-	-	53,227	53,227
Start-up costs	-	-	-	-	-	-	-	-	-	150,133	-	-	-	150,133
TOTAL OPERATING EXPENSES	274,584	46,502	271,146	9,741	72,761	132,332	99,250	135,378	(25,485)	185,030	151,172	7,687	400,926	1,762,024
Total expenses before depreciation and amortization	687,437	651,073	368,568	135,795	604,793	441,349	619,947	327,665	19,045	231,770	332,996	7,687	1,343,693	5,771,818
Depreciation and amortization	39,996	8,052	150,000	5,004	-	6,000	-	-	-	294	48	-	27,249	236,643
TOTAL FUNCTIONAL EXPENSES	\$ 727,433	\$ 659,125	\$ 518,568	\$ 140,799	\$ 604,793	\$ 447,349	\$ 619,947	\$ 327,665	\$ 19,045	\$ 231,770	\$ 333,044	\$ 7,981	\$ 1,370,942	\$ 6,008,461

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 619,477	\$ 233,395
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	277,766	236,643
Forgiveness of debt	(41,000)	-
Non-cash contributions	(440,000)	-
Loss on sale of property and equipment	-	(14,739)
Bad debt expense, net	244,202	44,415
Unrealized (gain) loss on investments - available for sale	71,224	(45,157)
(Increase) decrease in:		
Accounts, grants, and fees receivable	(231,729)	(270,893)
Accounts receivable - related party	(147,949)	(43,715)
Other receivables	(249)	(48,361)
Pledges receivable	31,660	(73,250)
Inventory	2,956	(3,210)
Work-in-process	-	(470)
Other current assets	2,521	17,692
Increase (decrease) in:		
Accounts payable	(316,561)	342,109
Accrued wages and other accrued liabilities	118,877	66,597
	<u>191,195</u>	<u>441,056</u>
INVESTING ACTIVITIES		
(Purchase) of certificates of deposit	(689)	(641)
Sale (purchase) of investments - available for sale	54,939	(44,086)
Repayment of notes receivable	119,000	-
Purchases of property and equipment	(303,772)	(649,660)
Proceeds from sale of property and equipment	-	9,500
	<u>(130,522)</u>	<u>(684,887)</u>
FINANCING ACTIVITIES		
Short-term bank borrowings, net	17,738	132,479
Proceeds from the issuance of long-term debt	380,022	-
Payments on long-term debt	(399,657)	(15,322)
Payments on capital leases	-	(853)
Payments on bonds payable, net	(90,426)	(74,102)
Forgiveness of debt	41,000	-
Other payable - Housing Program	202	(5,383)
	<u>(51,121)</u>	<u>36,819</u>
INCREASE (DECREASE) IN CASH	9,552	(207,012)
CASH		
Beginning of year	<u>27,309</u>	<u>234,321</u>
End of year	<u>\$ 36,861</u>	<u>\$ 27,309</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—Continued
for the years ended June 30, 2008 and 2007

	2008	2007
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment:		
Cost of property and equipment acquisition	\$ (2,378,981)	\$ (1,046,660)
Non-cash contributions on purchases	445,873	-
Accounts receivable applied towards purchases	185,000	-
Property and equipment acquired with notes payable	1,444,336	397,000
Net cash paid for purchases of property and equipment	\$ (303,772)	\$ (649,660)
Forgiveness of Debt:		
Notes receivable - Housing Program	\$ 19,733	\$ 73,144
Other payable - Housing Program	(19,733)	(73,144)
Long-term debt	41,000	-
	\$ 41,000	\$ -
SUPPLEMENTAL DISCLOSURE		
Interest paid	\$ 190,447	\$ 148,888

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of New Hope Services, Inc. and Subsidiaries (the Agency) is presented to assist in understanding the Agency's consolidated financial statements. The consolidated financial statements and notes are representations of the Agency's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

The more significant accounting policies of the Agency are as follows:

Nature of Operations

The Agency is a private non-profit organization which provides a full range of services for the disadvantaged individuals of southern Indiana. These services include day programs for a sheltered workshop, remedial reading, senior programs, counseling, housing assistance and construction to low income families, thrift-shop sales, senior programs and other services. See Note 11 for information regarding Subsidiaries.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of New Hope Services, Inc. and its Subsidiary, New Hope Development Services, LLC. New Hope Development Services, LLC is devoted exclusively to the development of affordable housing units. New Highland, Inc., Quartermaster General Corporation, Willow Trace, LLC, Rivers Edge, LLC, and Forest Glen, LLC, all wholly-owned subsidiaries of New Hope Services, Inc., had no significant activity in 2008 or 2007. See Note 11 for additional information regarding these related parties.

The Financial Accounting Standards Board ("FASB") Interpretation No. 46 ("FIN 46") requires the consolidation of certain "variable interest entities" under generally accepted accounting principles. Based on facts and circumstances present at June 30, 2008, New Hope Development Services, LLC has been identified as variable interest entity that is required to be consolidated with New Hope Services, Inc. under the guidance of FIN 46. All intercompany transactions have been eliminated in the consolidation.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. Additionally, the Agency has reported, when applicable, 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.

Use of Estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities (and disclosure of contingent assets and liabilities, if any) at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sources of Revenue

The Agency receives revenue from state and county governments, public campaigns, direct contributions, sheltered workshop sales, home sales, and thrift shop sales. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Most services are covered in whole or in part by third-party payers.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily restricted 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 a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Consolidated Statements of Activities as net assets released from restrictions. Should the Agency receive any gifts of long-lived assets such as land, buildings, or equipment, such amounts would be reported as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the donated assets are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. If explicit donor stipulations are absent about how long those long-lived assets must be maintained, the Agency reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated noncash assets are recorded at their fair market value in the period received. In accordance with SFAS No. 116, contributions of donated services that create or enhance non-financial assets or that require specialized skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. Donated services have not been valued, and are not reflected in this report, because the criteria for recognition of such volunteer effort under SFAS No. 116 have not been satisfied.

Cash Equivalents

For purposes of the statements of cash flows, the Agency considers all short-term investments with a maturity of three months or less to be cash equivalents. There were no cash equivalents as of June 30, 2008 and 2007.

Accounts Receivable

The Agency uses the allowance method of valuing accounts receivable which is based upon historical experience, coupled with a review of the current status of existing receivables. Management has provided an allowance of \$3,000 at June 30, 2008 and 2007.

Investments – Available for Sale

Investments, which are classified as available for sale, are recorded at fair market value in accordance with FAS 124, "Accounting for Certain Investments Held by Not-For-Profit Organizations." Gains and losses on market value adjustments are recognized as the market fluctuates.

Inventory

Inventory consists of materials and supplies used in the sheltered workshop. Inventory is valued at the lower of cost or market. Cost is determined on a FIFO (first-in, first-out) basis.

Work-in-Process

Work-in-process is valued at cost and consists of homes under construction. See Note 5 for additional information.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Property and Equipment

Property and equipment are recorded at cost, or if donated, at fair market value at date of donation. Maintenance and repairs are charged to expense when incurred. Major expenditures, and those which substantially increase useful lives, are capitalized. Gain or loss on retirements or dispositions of assets is credited or charged to operations, and respective costs and accumulated depreciation are eliminated from the accounts.

The cost of property and equipment is depreciated over the estimated useful lives of the related assets using the straight-line method. For purposes of computing depreciation, the estimated useful lives are 24 to 40 years for buildings, 10 to 20 years for building improvements, 3 to 10 years for equipment, and 5 to 7 years for vehicles.

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the Company periodically reviews the carrying values of property and equipment for impairment whenever adverse events or changes in circumstances indicate the carrying value of the asset may not be recoverable.

Bond Fees

Costs of \$15,100 relating to the renegotiation of the bonds are being amortized ratably over the life of the bonds, through 2020. The amortization expense was \$1,007 for the years ended June 30, 2008 and 2007. The unamortized bond fees have been netted against the bonds outstanding. See Note 9 for additional information.

Advertising

The Agency expenses advertising costs when incurred. Advertising costs were \$22,377 and \$5,462 for the years ended June 30, 2008 and 2007, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other supporting activities have been summarized on a functional basis in the Consolidated Statements of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on management's estimates.

NOTE 2—GRANTS AND FEES RECEIVABLE FROM GOVERNMENTAL AGENCIES

The Agency anticipates all grants and fees receivable from governmental agencies to be fully collectible. Thus, no allowance for uncollectible grants and fees has been provided. At June 30, 2008 and 2007, grant and fees receivable consist of the following:

	<u>2008</u>	<u>2007</u>
Indiana Department of Family and Children Services	\$ 418,718	\$ 243,906
County taxes	253,020	259,196
Department of Mental Health (Title XX)	34,036	14,329
Vocational Rehabilitation	14,011	12,129
Medicaid	68,598	62,955
Medicaid waiver	15,243	12,469
Community Housing Development Organization	31,137	169,179
Indiana Home Loan Bank	-	246,056
	<u>\$ 834,763</u>	<u>\$ 1,020,219</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 2—GRANTS AND FEES RECEIVABLE FROM GOVERNMENTAL AGENCIES—Continued

During the year ended June 30, 2008, the Agency applied approximately \$185,000 of community housing development receivables towards the purchase of real estate. This amount was reclassified into property, plant and equipment on the Consolidated Statement of Financial Position and appears as a reconciling item in the Consolidated Statement of Cash Flows to adjust net assets to net cash provided by operating activities.

NOTE 3—PLEDGES RECEIVABLE-PROMISES TO GIVE

During the year ended June 30, 2005, the Agency initiated a fund-raising campaign to support the construction projects of the Agency. Total pledge commitments received during the year were approximately \$206,000 and \$250,000 for the years ended June 30, 2008 and 2007, respectively. Promises to give at June 30, 2008 and 2007 are as follows:

	<u>2008</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Pledges receivable (capital campaign):			
Receivable in less than one year	\$ 11,300	\$ 18,500	\$ 29,800
Receivable in one to five years	<u>9,365</u>	<u>12,000</u>	<u>21,365</u>
Total pledges to give	<u>20,665</u>	<u>30,500</u>	<u>51,165</u>
Less discount to net present value	(1,665)	(2,457)	(4,122)
Less allowance for uncollectible pledges receivable	<u>(647)</u>	<u>(956)</u>	<u>(1,603)</u>
Total discount and allowance for pledges receivable	<u>(2,312)</u>	<u>(3,413)</u>	<u>(5,725)</u>
Net pledges receivable	<u>\$ 18,353</u>	<u>\$ 27,087</u>	<u>\$ 45,440</u>
	<u>2007</u>		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Pledges receivable (capital campaign):			
Receivable in less than one year	\$ 18,800	\$ 30,100	\$ 48,900
Receivable in one to five years	<u>33,500</u>	<u>27,900</u>	<u>61,400</u>
Total pledges to give	<u>52,300</u>	<u>58,000</u>	<u>110,300</u>
Less discount to net present value	(2,428)	(2,692)	(5,120)
Less allowance for uncollectible pledges receivable	<u>(3,689)</u>	<u>(4,091)</u>	<u>(7,780)</u>
Total discount and allowance for pledges receivable	<u>(6,117)</u>	<u>(6,783)</u>	<u>(12,900)</u>
Net pledges receivable	<u>\$ 46,183</u>	<u>\$ 51,217</u>	<u>\$ 97,400</u>

Promises to give receivable in more than one year are discounted at 6.00%.

The following is a schedule of the estimated collection period of pledges receivable for the capital campaign:

<u>Year Ending June 30</u>	<u>Amount</u>
2009	\$ 29,800
2010	13,940
2011	<u>1,700</u>
Total	<u>\$ 45,440</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 4—INVESTMENTS – AVAILABLE FOR SALE

Investments have been classified as available for sale and are stated at fair value. The following summarizes investments at June 30, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Common stock	\$ 18,315	\$ 30,000
Mutual funds	316,079	432,646
Cash and cash equivalents	<u>2,093</u>	<u>4</u>
Fair market value	<u>\$ 336,487</u>	<u>\$ 462,650</u>
Cost basis	<u>\$ 403,366</u>	<u>\$ 349,348</u>

The investment return for the years ended June 30, 2008 and 2007 is as follows:

Dividend income	\$ 14,705	\$ 13,149
Capital gain distributions	13,971	14,257
Unrealized gain (loss) on investments	<u>(71,224)</u>	<u>45,157</u>
	<u>\$ (42,548)</u>	<u>\$ 72,563</u>

The fair value of investments was obtained from quoted prices in active markets; therefore, it is considered a Level 1 fair value measurement under the fair value hierarchy established by SFAS 157, *Fair Value Measurements*.

See Note 13 for additional information.

NOTE 5—WORK-IN-PROCESS AND NOTES RECEIVABLE

HOUSING PROGRAM

The Agency constructs affordable housing using various financing arrangements as subsidies for buyers. At June 30, 2008 and 2007, \$20,990 was capitalized and included in work-in-process on the Consolidated Statements of Financial Position. Work-in-process consists of homes under construction. To assist in the sale of these homes, the Agency is holding notes receivable on all of the properties. There are currently thirty-one notes outstanding, all of which are secured by either a second or third mortgage, and are non-interest bearing. These notes are reflected as Notes Receivable – Housing Program on the Consolidated Statements of Financial Position and total \$184,516 and \$204,249 at June 30, 2008 and 2007, respectively. Four of the notes are to be repaid upon any future sale of the property. Upon the future sale and repayment of these loans, the Agency is required to reinvest the funds received back into the program. The remaining twenty-seven notes are being forgiven over five years. With respect to these loans, an offsetting liability has been booked in the amount of \$151,806 and \$171,337 at June 30, 2008 and 2007, respectively. This liability has been classified as Other payable - Housing Program on the Consolidated Statements of Financial Position.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 6—SHORT-TERM BANK BORROWINGS

The Agency has an \$850,000 line of credit, expiring February 2009, with Your Community Bank. The line of credit bears interest at prime (5.00% at June 30, 2008). The line of credit is secured by real estate of the Agency. The outstanding borrowings under the line of credit were \$592,559 and \$743,821 at June 30, 2008 and 2007, respectively.

The Agency established a second line of credit with Your Community Bank in August of 2007. Amounts available for borrowing under the line of credit arrangement are \$280,000. The line of credit bears interest at prime (5.00% at June 30, 2008) and is secured by all assets of the Agency. The outstanding borrowings under this line of credit were \$280,000 and \$-0- at June 30, 2008 and 2007, respectively.

The Agency had a \$70,000 short-term note with The New Washington State Bank which expired in January 2008. This note was not renewed. The outstanding borrowings under this note at June 30, 2007 were \$70,000.

During 2007, the Agency received advances from the Federal Home Loan Bank of Indiana to construct a certain housing development. These advances totaling \$41,000 were classified as short-term bank borrowings at June 30, 2007. Under the terms of the agreement, these advances were to be repaid if the project was not completed. In May 2008, the project was completed and this liability was recognized as grant revenue.

NOTE 7—NOTES PAYABLE

Long-term debt at June 30, 2008 and 2007 consisted of the following:

	2008	2007
1st Independence Bank, in monthly installments of \$3,850, including interest at 4.64% through November 2012, with interest rate adjustments at December 2012 and December 2017 equal to the aggregate of 3.15% plus the five-year treasury rate in effect at adjustment date, secured by real estate.	\$ 739,726	\$ -
The New Washington State Bank, in monthly installments of \$1,963, including interest at 7.00% through June 2038, secured by real estate.	294,104	-
The New Washington State Bank, in 59 monthly installments of \$2,725 and one final installment of all principal and accrued interest not yet paid, including interest at 7.5% through October 2012, secured by real estate.	365,481	-
The New Washington State Bank, principal and interest due November 2008, including interest at prime (5.0% at June 30, 2008), secured by real estate.	380,023	-
GMAC, in monthly installments of \$595, including interest at 5.90% through June 2013, secured by a vehicle.	30,856	-
Your Community Bank, in monthly installments of \$244, including interest at 7.75% through March 2011, secured by a vehicle.	7,208	9,465
Your Community Bank, at an interest rate of 8.25%, repaid in 2008, secured by real estate.	-	383,232
Total notes payable	1,817,398	392,697
Less current portion	(408,258)	(63,925)
Notes payable, less current portion	\$ 1,409,140	\$ 328,772

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 7—NOTES PAYABLE—Continued

At June 30, 2008, long-term debt matures as follows:

Year ending <u>June 30</u>	<u>Amount</u>
2009	\$ 408,258
2010	29,967
2011	31,085
2012	30,692
2013	365,964
Thereafter	<u>951,432</u>
Total	<u>\$ 1,817,398</u>

Interest expense was \$223,515 and \$148,888 for the years ended June 30, 2008 and 2007, respectively.

NOTE 8—CAPITAL LEASE OBLIGATIONS

The Agency leased equipment under capital leases expiring in various years through August 2006. Assets under capital leases are recorded at the lower of the net present value of minimum lease payments or the fair value of the leased asset at the inception of the lease. The cost of equipment under capital leases is included in the Consolidated Statements of Financial Position as property and equipment and was \$40,017 at June 30, 2008 and 2007. Accumulated amortization of the leased equipment at June 30, 2008 and 2007 was \$36,740 and \$31,157, respectively. Amortization is calculated, using the straight-line method, over their estimated useful lives of 5 and 10 years and is included in depreciation expense.

There were no minimum future lease payments under capital leases as of June 30, 2008.

NOTE 9—BONDS PAYABLE

The bonds have been issued by the Indiana Health Facility Financing Authority and are payable \$11,884 monthly at the tax-exempt rate, through April 2020. At June 30, 2008, the tax-exempt interest rate was 4.95%. The bonds are secured by three buildings, accounts receivable, and inventory. See Note 1 for additional information regarding fees incurred and related amortization.

At June 30, 2008 and 2007, the bonds outstanding are summarized as follows:

	<u>2008</u>	<u>2007</u>
Total amount originally financed	\$ 916,250	\$ 916,250
Additional bond purchases	583,750	583,750
Cumulative bond payments made	<u>(254,865)</u>	<u>(176,016)</u>
Total bonds outstanding	1,245,135	1,323,984
Loan fees, net of accumulated amortization of \$3,523 and \$2,517 at June 30, 2008 and 2007, respectively	<u>(11,576)</u>	<u>(12,583)</u>
Bonds payable, net	1,233,559	1,311,401
Less current portion	<u>(82,842)</u>	<u>(78,850)</u>
Bonds payable, less current portion	<u>\$ 1,150,717</u>	<u>\$ 1,232,551</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 9—BONDS PAYABLE—Continued

At June 30, 2008, the bond obligations mature as follows:

Year ending <u>June 30</u>	<u>Amount</u>
2009	\$ 82,842
2010	87,037
2011	91,445
2012	96,075
2013	100,941
Thereafter	<u>786,795</u>
Total	<u>\$ 1,245,135</u>

NOTE 10—OPERATING LEASES

Lease Income

The Agency leases classroom and office space to an unrelated party. The lease terminates October 2008 with automatic renewal provisions. The monthly lease payment received by New Hope Services, Inc. for this operating lease is \$690.

The total lease income received totaled \$140,261 and \$250,907 for the years ended June 30, 2008 and 2007. Total lease income includes lease arrangements for employees and office space which expired during the year ended June 30, 2008 and were not renewed.

The future minimum lease income to be received as of June 30, 2008 is as follows:

\$5,520

Lease Expense

The Agency leased office equipment from unrelated parties which were classified as operating leases. These leases matured on various dates through August 2007. The total lease expense under these leases for the years ended June 30, 2008 and 2007 was \$1,807 and \$6,735, respectively.

Additionally, the Agency entered into lease arrangements for the lease of two thrift store locations during the year ended June 30, 2008. Both leases are in southern Indiana. The first lease expires in September of 2009 and has monthly lease payments of \$5,100. The second lease expires in February 2009 with monthly payments of \$2,867. Total lease expense under these leases for the years ended June 30, 2008 and 2007 was \$64,018 and \$-0-, respectively. Future minimum lease payments relating to these leases as of June 30, 2008 are as follows:

Year ending <u>June 30</u>	<u>Lease #1 Amount</u>	<u>Lease #2 Amount</u>	<u>Total</u>
2009	\$ 61,200	\$ 22,936	\$ 84,136
2010	<u>15,300</u>	<u>-</u>	<u>15,300</u>
Total	<u>\$ 76,500</u>	<u>\$ 22,936</u>	<u>\$ 99,436</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 11—RELATED PARTY TRANSACTIONS

New Hope Services, Inc. has ownership interest and/or control over various entities as indicated below:

- New Highland, Inc. - New Hope Services, Inc. is the 100% stockholder
- Highland Glen, LP - New Highland, Inc. is a .009% general partner
- Quartermaster General Corporation - New Hope Services, Inc. is the 100% stockholder
- Quartermaster, LP - Quartermaster General Corporation is a .01% general partner
- New Hope Development Services, LLC - New Hope Services, Inc. is the 100% member
- Willow Trace Holdings, LLC - New Hope Development Services, LLC is the 100% member
- Willow Trace, LP - Willow Trace Holdings, LLC is a .001% general partner
- Rivers Edge Holdings, LLC - New Hope Development Services, LLC is the 100% member
- Rivers Edge, LP - Rivers Edge Holdings, LLC is a .001% general partner
- Forest Glen Holdings, LLC - New Hope Development Services, LLC is the 100% member
- Forest Glen, LP - Forest Glen Holdings, LLC is a .001% general partner

The above entities were established principally to acquire real estate and develop one or more multi-family dwelling units.

In prior years, New Hope Development Services, LLC, a wholly-owned subsidiary, earned developer's fees resulting from its involvement with the Quartermaster Court, Highland Glen, Willow Trace, Forest Glen, and Rivers Edge projects. These developer's fee receivables are anticipated to be received over a period of time not to exceed 15 years. The Agency has established an allowance account to recognize the potential uncollectability of the developer's fee receivable.

Interest will be paid on developer's fees received in future periods; therefore, no discounts have been recognized at June 30, 2008 and 2007.

The amount of developer's fees receivable from related parties at June 30, 2008 and 2007 consist of the following:

	2008	2007
Quartermaster, L.P.	\$ 90,327	\$ 90,327
Highland Glen, L.P.	338,151	338,151
Willow Trace, L.P.	185,532	185,532
Rivers Edge, L.P.	215,269	215,269
Forest Glen, L.P.	197,025	197,025
Accounts receivable - related party	1,026,304	1,026,304
Less allowance for uncollectible receivable	(100,000)	(100,000)
Less amount receivable (payable) from/to unrelated party	4,235	(143,714)
Total accounts receivable - related party, net	930,539	782,590
Less current portion	-	-
Accounts receivable - related party, less current portion	\$ 930,539	\$ 782,590

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 11—RELATED PARTY TRANSACTIONS—Continued

During 2007, half of the developer's fee payable relating to the Highland Glen, LP was forgiven by the unrelated party and treated as a contribution by the Agency. The remaining \$143,714 was forgiven by the unrelated party during 2008. It has been included in the Consolidated Statement of Activities as contributions under Public Support and Revenue.

These related party receivables are not expected to be collected within the next year and therefore are shown as Other Assets on the Consolidated Statement of Financial Position.

See Note 18 for information regarding loan guarantees.

NOTE 12—CONTRIBUTIONS

During the year ended June 30, 2008, the Agency received property with an appraised value of \$1,190,000 for \$750,000, thus recognizing a non-cash contribution of \$440,000. This contribution has been recorded as revenue in the Consolidated Statement of Activities and appears as a reconciling item in the Consolidated Statement of Cash Flows to adjust net assets to net cash provided by operating activities.

NOTE 13—RETIREMENT PLAN

The Agency has a 401(k) retirement plan for employees who meet certain eligibility requirements as to age and length of service. The Agency may make a contribution at management's discretion. Total contributions to the Plan by the Agency for the years ended June 30, 2008 and 2007 were \$80,683 and \$68,667, respectively.

The Agency also has an Individual Tax Sheltered Annuity Plan for its full-time employees who are eligible after completing one year of employment. Employees may contribute to the Plan, but the Agency does not match the employees' contribution.

During the year ended June 30, 2006, the Agency initiated a non-qualified deferred compensation plan (Plan) for the chief executive officer (CEO). The Plan under Internal Revenue Code allows tax-exempt organizations to establish deferred compensation plans for certain individuals of the Agency. The Plan requires the CEO to remain at his position in the Agency for five years from the plan's date of inception. If the CEO were to leave the Agency before the five year period expired, the Agency would not be required to distribute any Plan contributions or investment earnings. During each of the years ended June 30, 2008 and 2007, the Agency charged \$15,500 to operations for the Plan. The 2008 contribution was made subsequent to the year ended June 30, 2008. The fair market value of the investment totaled \$49,075 and \$51,534 as of June 30, 2008 and 2007, respectively, and is included in "Investments – available for sale" on the Consolidated Statement of Financial Position. See Note 4 for additional information regarding Investments.

Subsequent to the year ended June 30, 2008, the Agency established an additional deferred compensation plan (Second Plan) to retain the services of its CEO through December 31, 2010. After June 30, 2008, the Agency deposited \$10,000 to the Second Plan. If the CEO were to leave before the expiration date, the Agency would not be required to distribute any contributions or investment earnings from the Second Plan to the CEO.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 14—GOVERNMENTAL AGENCIES' SUPPORT

Governmental agencies' support consists of the following:

	<u>2008</u>	<u>2007</u>
Program Service Fees:		
Indiana Family and Social Services Administration	\$ 212,238	\$ 162,478
Title XX	192,757	170,334
Miscellaneous fees	58,195	83,962
Scott County service fees - preschool	224,108	229,753
Medicaid	1,794,903	1,601,007
WIC	599,160	355,534
County DFC Offices	363,480	186,610
Indiana Department of Family and Children's Services	<u>904,602</u>	<u>875,050</u>
	<u>4,349,443</u>	<u>3,664,728</u>
Grants:		
Indiana Housing Finance Authority (Housing Program)	377,666	296,066
Community Partners for Child Safety	366,931	119,137
Intensive Services	72,190	73,806
Project Respect	-	29,988
CAPE	30,000	16,423
Other grants	<u>10,238</u>	<u>6,720</u>
	<u>857,025</u>	<u>542,140</u>
Taxes:		
County tax	<u>490,243</u>	<u>523,228</u>
Total Governmental Agencies' Support	<u>\$ 5,696,711</u>	<u>\$ 4,730,096</u>

NOTE 15—INCOME TAXES

The Agency has qualified under Internal Revenue Code Section 501(c) (3) and with the Indiana Department of Revenue as a tax-exempt organization for income tax purposes. Accordingly, there is no provision in the financial statements for federal or state income taxes.

NOTE 16—COMPENSATED ABSENCES

Employees of the Agency are entitled to paid vacation and sick days depending on job classification, length of service, and other factors. It is impractical for the Agency to estimate the amount of compensation for future absences; accordingly, no liability for compensated absences has been recorded in the accompanying financial statements. The Agency's policy is to recognize the costs of compensated absences when actually paid to employees.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 17—CONCENTRATION OF RISK

Cash Concentration Risk

The Agency's cash and certificates of deposit are maintained with various financial institutions. The Agency did not exceed federally insured amounts for the years ended June 30, 2008 and 2007.

Group Concentration Risk

The Agency is substantially funded by grants and contracts awarded directly and indirectly by the federal government and the State of Indiana. The majority of the agreements contain provisions which permit the arrangement to be terminated or the funds provided to be reduced if the unit of government does not appropriate adequate funds to maintain the current funding levels.

NOTE 18—COMMITMENTS AND CONTINGENCIES

The Agency, acting as general partner, is a guarantor on term loans and construction loans from various banks to the limited partnerships identified in Note 11. These loans are secured by a first mortgages on the real estate owned by the related limited partnership(s). These guaranties would require the Agency to satisfy the underlying debt to the bank in the event the related partnership(s) are unable to do so. As of June 30, 2008, the guaranteed loans balances were approximately \$6,500,000.

Part of the Agency's program offerings for adults is Vocational training. Through this program, adults with low productivity or unacceptable social or training behaviors work for the Agency and provide labor assistance for contracted services secured between the Agency and local third party companies. These adults are reimbursed for their work in accordance with the U.S. Department of Labor's Wage and Hour regulations. During 2003, at the direction of the Agency's Board of Directors, the Agency began recording a liability to recognize the potential required payment of Social Security and Medicare benefits for each worker employed by the program. Management along with its legal counsel has contacted the U.S. Department of Labor to determine if a liability in fact does exist for these workers. As of the date of this report, the Agency has not received guidance from the U.S. Department of Labor. The contingent liability recognized by the Agency at June 30, 2008 and 2007 was \$65,481 and \$50,424, respectively. This liability is included in the Consolidated Statement of Financial Position as a current liability with accrued wages and other accrued liabilities.

NOTE 19—RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to current year presentation. These reclassifications had no effect on the net income or net assets as previously reported.

SUPPLEMENTARY INFORMATION

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
for the year ended June 30, 2008

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenses</u>
<u>U.S. Department of Health and Human Services:</u>		
Pass-through programs from:		
Indiana Family and Social Services Administration:		
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (CCDF)	93-596	\$ 79,402
Temporary Assistance for Needy Families (Healthy Families Indiana)	93.558	727,375
Child Welfare Services State Grants (Title IV-B Part I Scott and Clark)	93.645	6,654
Promoting Safe and Stable Families (Title IV-B Part II Scott and Clark)	93.556	64,762
Social Services Block Grant (Title XX 1801)	93.667	190,829
Indiana Department of Child Services		
Community Partners for Child Safety	93.580	198,143
Total U.S. Department of Health and Human Services		<u>1,267,165</u>
 <u>U.S. Department of Agriculture:</u>		
Pass-through programs from:		
Indiana State Department of Health:		
Special Supplemental Nutrition Program for Women, Infant, and Children (WIC)	10.557	599,161
Indiana Department of Education:		
Child and Adult Care Food Program (CACFP)	10.558	31,746
Total U.S. Department of Agriculture		<u>630,907</u>
 <u>U.S. Department of Education:</u>		
Pass-through program from Indiana Family and Social Services Administration, Division of Disability, Aging and Rehabilitative Vocational Rehabilitation Services - Vocational Rehabilitation	84.126A	161,098
 TOTAL EXPENDITURES OF FEDERAL AWARDS		 <u>\$ 2,059,170</u>

Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of the Agency and is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
New Hope Services, Inc.
Jeffersonville, Indiana

We have audited the financial statements of New Hope Services, Inc. (a nonprofit organization) as of and for the year ended June 30, 2008, and have issued our report thereon dated January 31, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered New Hope Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

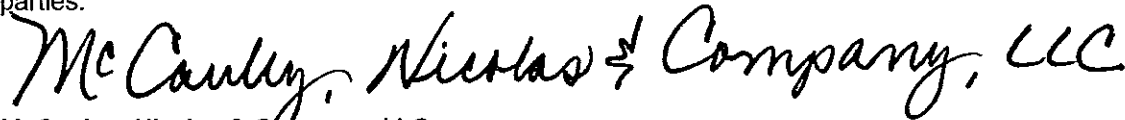
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Hope Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "McCauley, Nicolas & Company, LLC". The signature is written in a cursive, flowing style.

McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 31, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
New Hope Services, Inc.
Jeffersonville, Indiana

Compliance

We have audited the compliance of New Hope Services, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. New Hope Services, Inc.'s major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of New Hope Services, Inc.'s management. Our responsibility is to express an opinion on New Hope Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about New Hope Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of New Hope Services, Inc.'s compliance with those requirements.

In our opinion, New Hope Services, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

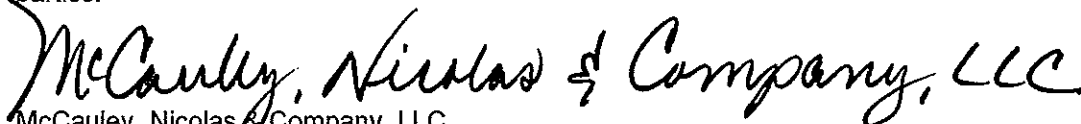
The management of New Hope Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered New Hope Services, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Hope Services, Inc.'s internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.


McCauley, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
January 31, 2009

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2008**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the consolidated financial statements of New Hope Services, Inc. and Subsidiaries.
2. No reportable conditions relating to the audit of the consolidated financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the consolidated financial statements of New Hope Services, Inc. which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for New Hope Services, Inc. and Subsidiaries expresses an unqualified opinion on all major federal programs.
6. There are no audit findings relative to the major federal award programs reported in this schedule.
7. The programs tested as major programs included:

<u>CFDA Number</u>	<u>Grantor's Reference</u>
93.558	Healthy Families (TANF)
93.667	Title XX
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. New Hope Services, Inc. was determined to be a low-risk auditee.

B. FINDINGS—FINANCIAL STATEMENTS AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

<u>Findings</u>	<u>Questioned Costs</u>
None	None

There were no prior audit findings.