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October 12, 2011

Board of Directors
New Hope Services, Inc.
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, 2008 to June 30, 2009. 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., as of June 30, 2009, 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, 2009 and 2008

and

**REPORTS REQUIRED BY U.S. OFFICE OF MANAGEMENT
AND BUDGET CIRCULAR A-133, AUDITS OF STATES,
LOCAL GOVERNMENTS AND NON-PROFIT ORGANIZATIONS**
for the year ended June 30, 2009

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 – 28
Supplementary Information:	
Schedule of Expenditures of Federal Awards	29
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>	30 and 31
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	32 and 33
Schedule of Findings and Questioned Costs	34

INDEPENDENT AUDITORS' REPORT

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

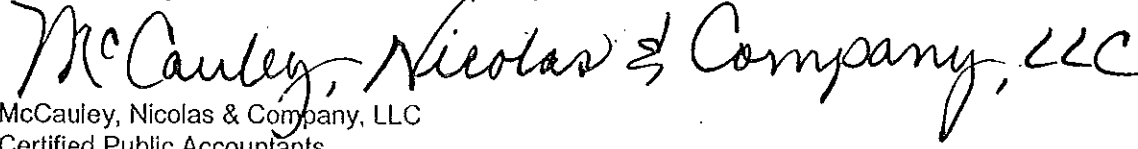
We have audited the accompanying consolidated statements of financial position of New Hope Services, Inc. and Subsidiaries (collectively, the "Agency") as of June 30, 2009 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These 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, 2009 and 2008, 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 December 14, 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 should be considered in 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.


McCaughey, Nicolas & Company, LLC
Certified Public Accountants

Jeffersonville, Indiana
December 14, 2009

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Kenneth N. Nicolas, CPA Ronald F. Barnes, CPA, PFS Lee E. Pleper, CPA J. Patrick Byrne, CPA
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NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2009
with comparative totals for June 30, 2008

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2009 Total</u>	<u>Comparative 2008 Total</u>
CURRENT ASSETS				
Cash	\$ 26,494	\$ -	\$ 26,494	\$ 36,861
Certificates of deposit	15,750	-	15,750	15,224
Accounts receivable - workshop contracts, net	30,044	-	30,044	43,667
Grants and fees receivable from governmental agencies	770,818	-	770,818	803,626
Pledges receivable, net	6,742	8,465	15,207	29,800
Investments - available for sale	277,928	-	277,928	336,487
Inventory	10,546	-	10,546	8,703
Work-in-process	20,990	-	20,990	20,990
Other current assets	15,801	-	15,801	28,394
TOTAL CURRENT ASSETS	<u>1,175,113</u>	<u>8,465</u>	<u>1,183,578</u>	<u>1,323,752</u>
PROPERTY AND EQUIPMENT				
Land	263,844	-	263,844	263,844
Buildings and improvements	6,980,149	-	6,980,149	6,635,444
Equipment and vehicles	1,617,023	-	1,617,023	1,391,123
	<u>8,861,016</u>	<u>-</u>	<u>8,861,016</u>	<u>8,290,411</u>
Less accumulated depreciation	<u>(3,119,907)</u>	<u>-</u>	<u>(3,119,907)</u>	<u>(2,816,392)</u>
PROPERTY AND EQUIPMENT, NET	<u>5,741,109</u>	<u>-</u>	<u>5,741,109</u>	<u>5,474,019</u>
OTHER ASSETS				
Receivable - related party, net	1,011,418	-	1,011,418	1,010,037
Pledges receivable, less current portion, net	1,200	500	1,700	15,640
Notes receivable - Housing Program	166,715	-	166,715	184,516
TOTAL OTHER ASSETS	<u>1,179,333</u>	<u>500</u>	<u>1,179,833</u>	<u>1,210,193</u>
TOTAL ASSETS	<u>\$ 8,095,555</u>	<u>\$ 8,965</u>	<u>\$ 8,104,520</u>	<u>\$ 8,007,964</u>
<u>LIABILITIES AND NET ASSETS</u>				
CURRENT LIABILITIES				
Short-term bank borrowings	\$ 986,019	\$ -	\$ 986,019	\$ 872,559
Notes payable, current portion	64,183	-	64,183	408,258
Bonds payable, current portion	87,037	-	87,037	82,842
Accounts payable	165,288	-	165,288	66,858
Accrued wages and other accrued liabilities	407,944	-	407,944	502,014
TOTAL CURRENT LIABILITIES	<u>1,710,471</u>	<u>-</u>	<u>1,710,471</u>	<u>1,932,531</u>
OTHER LIABILITIES				
Notes payable, less current portion	1,682,520	-	1,682,520	1,409,140
Bonds payable, less current portion	1,066,807	-	1,066,807	1,150,717
Other payable - Housing Program	134,348	-	134,348	151,806
TOTAL OTHER LIABILITIES	<u>2,883,675</u>	<u>-</u>	<u>2,883,675</u>	<u>2,711,663</u>
TOTAL LIABILITIES	<u>4,594,146</u>	<u>-</u>	<u>4,594,146</u>	<u>4,644,194</u>
NET ASSETS	<u>3,501,409</u>	<u>8,965</u>	<u>3,510,374</u>	<u>3,363,770</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,095,555</u>	<u>\$ 8,965</u>	<u>\$ 8,104,520</u>	<u>\$ 8,007,964</u>

See notes to consolidated financial statements.

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

June 30, 2008

<u>ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>
CURRENT ASSETS			
Cash	\$ 36,861	\$ -	\$ 36,861
Certificates of deposit	15,224	-	15,224
Accounts receivable - workshop contracts, net	43,667	-	43,667
Grants and fees receivable from governmental agencies	803,626	-	803,626
Pledges receivable, net	11,300	18,500	29,800
Investments - available for sale	336,487	-	336,487
Inventory	8,703	-	8,703
Work-in-process	20,990	-	20,990
Other current assets	28,394	-	28,394
TOTAL CURRENT ASSETS	<u>1,305,252</u>	<u>18,500</u>	<u>1,323,752</u>
PROPERTY AND EQUIPMENT			
Land	263,844	-	263,844
Buildings and improvements	6,635,444	-	6,635,444
Equipment and vehicles	1,391,123	-	1,391,123
	8,290,411	-	8,290,411
Less accumulated depreciation	<u>(2,816,392)</u>	<u>-</u>	<u>(2,816,392)</u>
PROPERTY AND EQUIPMENT, NET	<u>5,474,019</u>	<u>-</u>	<u>5,474,019</u>
OTHER ASSETS			
Receivable - related party, less current portion, net	1,010,037	-	1,010,037
Pledges receivable, less current portion, net	7,053	8,587	15,640
Notes receivable - Housing Program	184,516	-	184,516
TOTAL OTHER ASSETS	<u>1,201,606</u>	<u>8,587</u>	<u>1,210,193</u>
TOTAL ASSETS	<u>\$ 7,980,877</u>	<u>\$ 27,087</u>	<u>\$ 8,007,964</u>
 <u>LIABILITIES AND NET ASSETS</u>			
CURRENT LIABILITIES			
Short-term bank borrowings	\$ 872,559	\$ -	\$ 872,559
Notes payable, current portion	408,258	-	408,258
Bonds payable, current portion	82,842	-	82,842
Accounts payable	66,858	-	66,858
Accrued wages and other accrued liabilities	502,014	-	502,014
TOTAL CURRENT LIABILITIES	<u>1,932,531</u>	<u>-</u>	<u>1,932,531</u>
OTHER LIABILITIES			
Notes payable, less current portion	1,409,140	-	1,409,140
Bonds payable, less current portion	1,150,717	-	1,150,717
Other payable - Housing Program	151,806	-	151,806
TOTAL OTHER LIABILITIES	<u>2,711,663</u>	<u>-</u>	<u>2,711,663</u>
TOTAL LIABILITIES	4,644,194	-	4,644,194
NET ASSETS	<u>3,336,683</u>	<u>27,087</u>	<u>3,363,770</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,980,877</u>	<u>\$ 27,087</u>	<u>\$ 8,007,964</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES

for the year ended June 30, 2009
with comparative totals for June 30, 2008

	Unrestricted	Temporarily Restricted	2009 Total	Comparative 2008 Total
PUBLIC SUPPORT AND REVENUE				
Public support received directly:				
Contributions	\$ 34,933	\$ 28,658	\$ 63,591	\$ 638,286
Public support received indirectly:				
Received from campaigns	13,662	-	13,662	13,660
Net assets released from restrictions	46,780	(46,780)	-	-
TOTAL PUBLIC SUPPORT	95,375	(18,122)	77,253	651,946
GOVERNMENTAL AGENCIES' SUPPORT				
Program service fees	5,146,487	-	5,146,487	4,788,564
Grants	545,035	-	545,035	417,904
Taxes	501,603	-	501,603	490,243
TOTAL GOVERNMENTAL AGENCIES' SUPPORT	6,193,125	-	6,193,125	5,696,711
OTHER REVENUE				
Food and vending collections	7,577	-	7,577	8,033
Sheltered workshop income	395,039	-	395,039	431,636
Dividend and interest income	12,736	-	12,736	11,821
Lease income	2,070	-	2,070	185,438
Child care income	237,610	-	237,610	219,233
Rental income - housing developments	113,079	-	113,079	81,790
Income from tax credit projects	-	-	-	12,000
Fundraisers	947	-	947	386
Thrift Store sales	322,253	-	322,253	113,952
Miscellaneous revenue	86,255	-	86,255	40,560
TOTAL OTHER REVENUE	1,177,566	-	1,177,566	1,104,849
TOTAL SUPPORT AND OTHER REVENUE	7,466,066	(18,122)	7,447,944	7,453,506

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF ACTIVITIES—Continued

for the year ended June 30, 2009
with comparative totals for June 30, 2008

	Unrestricted	Temporarily Restricted	2009 Total	Comparative 2008 Total
EXPENSES				
Program Services:				
Work Services	714,347	-	714,347	828,062
Habitatation and Placement	876,661	-	876,661	859,485
Rental properties	766,926	-	766,926	701,735
Senior Care	159,285	-	159,285	179,174
Healthy Families	603,745	-	603,745	626,738
Child Care	308,443	-	308,443	439,761
Family Support and Preservation	1,081,097	-	1,081,097	833,698
Women Infant and Children (WIC)	485,645	-	485,645	443,136
Fundraising Campaign	196,997	-	196,997	134,490
Community Housing Development	233,643	-	233,643	199,038
Thrift Store Operations	479,406	-	479,406	221,682
Other programs	51,600	-	51,600	31,239
Support Services:				
Administration	1,247,276	-	1,247,276	1,264,567
TOTAL EXPENSES	7,205,071	-	7,205,071	6,762,805
OTHER INCOME (LOSS)				
Unrealized loss on investments - available for sale	(96,269)	-	(96,269)	(71,224)
CHANGE IN NET ASSETS	164,726	(18,122)	146,604	619,477
NET ASSETS				
Beginning of year, as previously reported	3,336,683	27,087	3,363,770	2,744,293
End of year	<u>\$ 3,501,409</u>	<u>\$ 8,965</u>	<u>\$ 3,510,374</u>	<u>\$ 3,363,770</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES

for the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support received directly:			
Contributions	\$ 605,888	\$ 32,398	\$ 638,286
Public support received indirectly:			
Received from campaigns	13,660	-	13,660
Net assets released from restrictions	<u>56,528</u>	<u>(56,528)</u>	<u>-</u>
TOTAL PUBLIC SUPPORT	<u>676,076</u>	<u>(24,130)</u>	<u>651,946</u>
GOVERNMENTAL AGENCIES' SUPPORT			
Program service fees	4,788,564	-	4,788,564
Grants	417,904	-	417,904
Taxes	<u>490,243</u>	<u>-</u>	<u>490,243</u>
TOTAL GOVERNMENTAL AGENCIES' SUPPORT	<u>5,696,711</u>	<u>-</u>	<u>5,696,711</u>
OTHER REVENUE			
Food and vending collections	8,033	-	8,033
Sheltered workshop income	431,636	-	431,636
Dividend and interest income	11,821	-	11,821
Lease income	185,438	-	185,438
Child care income	219,233	-	219,233
Rental income - housing developments	81,790	-	81,790
Income from tax credit projects	12,000	-	12,000
Fundraisers	386	-	386
Thrift Store sales	113,952	-	113,952
Miscellaneous revenue	<u>40,560</u>	<u>-</u>	<u>40,560</u>
TOTAL OTHER REVENUE	<u>1,104,849</u>	<u>-</u>	<u>1,104,849</u>
TOTAL SUPPORT AND OTHER REVENUE	<u>7,477,636</u>	<u>(24,130)</u>	<u>7,453,506</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF ACTIVITIES— Continued

for the year ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2008 Total</u>
EXPENSES			
Program Services:			
Work Services	828,062	-	828,062
Habilitation and Placement	859,485	-	859,485
Rental properties	701,735	-	701,735
Senior Care	179,174	-	179,174
Healthy Families	626,738	-	626,738
Child Care	439,761	-	439,761
Family Support and Preservation	833,698	-	833,698
Women Infant and Children (WIC)	443,136	-	443,136
Fundraising Campaign	134,490	-	134,490
Community Housing Development	199,038	-	199,038
Thrift Store Operations	221,682	-	221,682
Other programs	31,239	-	31,239
Support Services:			
Administration	<u>1,264,567</u>	<u>-</u>	<u>1,264,567</u>
TOTAL EXPENSES	<u>6,762,805</u>	<u>-</u>	<u>6,762,805</u>
OTHER INCOME (LOSS)			
Unrealized loss on investments - available for sale	<u>(71,224)</u>	<u>-</u>	<u>(71,224)</u>
CHANGE IN NET ASSETS	643,607	(24,130)	619,477
NET ASSETS			
Beginning of year	<u>2,693,076</u>	<u>51,217</u>	<u>2,744,293</u>
End of year	<u>\$ 3,336,683</u>	<u>\$ 27,087</u>	<u>\$ 3,363,770</u>

See notes to consolidated financial statements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
for the year ended June 30, 2009

	Work Services	Habilitation and Placement	Rental Properties	Senior Care	Healthy Families	Child Care	Family Support and Preservation	W/C	Fund-raising Campaign	Community Housing Development	Thrift Store Operations	Other Programs	Agency Administration	2009 Totals
SALARIES AND RELATED EXPENSES														
Salaries and wages	\$ 330,339	\$ 611,297	\$ 129,489	\$ 106,246	\$ 444,435	\$ 193,710	\$ 779,958	\$ 351,717	\$ 68,939	\$ 8,057	\$ 279,581	\$ 29,762	\$ 632,786	\$ 3,966,276
Employee benefits	45,443	64,124	18,531	13,812	47,846	34,830	72,362	43,903	9,856	579	23,689	2,920	120,986	498,561
Payroll taxes	30,688	45,864	8,999	7,816	32,541	14,487	58,232	25,800	5,191	595	19,984	2,067	45,366	297,610
	<u>406,470</u>	<u>721,285</u>	<u>157,019</u>	<u>127,874</u>	<u>524,922</u>	<u>243,027</u>	<u>910,552</u>	<u>421,420</u>	<u>83,946</u>	<u>9,231</u>	<u>323,234</u>	<u>34,749</u>	<u>798,738</u>	<u>4,762,467</u>
TOTAL SALARIES AND RELATED EXPENSES														
OPERATING EXPENSES														
Consulting and professional fees	-	-	3,792	-	-	5,058	21,374	2,851	80,305	10,706	11,857	375	104,221	240,539
Workshop materials and supplies	17,028	-	65	-	-	-	-	-	-	-	322	-	-	17,415
Supplies	2,665	7,972	47,541	1,331	12,407	42,388	6,411	26,326	6,796	126	12,634	2,833	18,311	187,741
Telephone	2,831	8,902	29,372	1,169	10,794	2,463	13,062	4,481	1,160	1,508	4,835	232	7,356	88,265
Postage and freight	4,285	952	4,563	1	769	290	522	2,958	3,848	73	8,620	741	265	27,907
Occupancy and lease expense	1,018	1,091	280,465	61	750	1,327	5,851	404	-	3,486	77,044	5,662	1,885	379,244
Equipment repairs and rental	1,661	149	7,445	60	-	27	14	-	-	181	569	44	307	10,457
Transportation	47,583	27,069	10,735	3,897	40,634	8,193	96,301	4,494	437	1,136	7,965	489	6,641	255,574
Conferences, conventions and meetings	1,591	8,927	406	790	8,779	5,058	8,219	6,014	806	2,539	189	1,901	46,558	91,777
Printing and publications	126	4,631	3,437	283	625	2,063	5,591	1,246	18,564	-	14,181	870	6,453	58,480
Wages - workshop clients	154,786	-	-	-	-	-	-	-	-	-	-	-	-	154,786
Insurance	-	-	-	-	-	-	-	-	-	-	-	-	5,004	5,004
Licenses and royalties	-	250	-	-	-	-	-	-	-	-	-	-	-	325
Interest	-	-	44,177	-	-	-	-	-	-	49,816	1,765	-	106,106	201,864
Dues and subscriptions	138	214	-	40	387	1,309	405	112	802	(11)	18,197	431	18,197	22,024
Community housing expenses	-	-	17,663	-	-	-	-	47	22	52,381	11,712	-	8,351	90,176
Bad debt (recovery) expense, net	43,012	82,105	-	18,500	-	-	-	-	-	-	3	-	-	143,620
Miscellaneous expenses	1,053	4,954	226	275	3,678	(8,260)	12,485	15,292	211	102,471	4,401	3,273	22,825	162,884
	<u>277,877</u>	<u>147,216</u>	<u>449,907</u>	<u>28,407</u>	<u>78,823</u>	<u>60,416</u>	<u>170,545</u>	<u>64,225</u>	<u>113,051</u>	<u>224,412</u>	<u>156,172</u>	<u>16,851</u>	<u>352,180</u>	<u>2,138,082</u>
TOTAL OPERATING EXPENSES														
Total expenses before depreciation and amortization	684,347	868,501	606,926	154,281	603,745	303,443	1,081,097	485,645	196,997	233,643	479,406	51,500	1,150,918	6,300,549
Depreciation and amortization	30,000	8,160	160,000	5,004	-	5,000	-	-	-	-	-	-	96,358	304,522
	<u>\$ 714,347</u>	<u>\$ 876,661</u>	<u>\$ 766,926</u>	<u>\$ 159,285</u>	<u>\$ 603,745</u>	<u>\$ 308,443</u>	<u>\$ 1,081,097</u>	<u>\$ 485,645</u>	<u>\$ 196,997</u>	<u>\$ 233,643</u>	<u>\$ 479,406</u>	<u>\$ 51,500</u>	<u>\$ 1,247,276</u>	<u>\$ 7,205,071</u>
TOTAL FUNCTIONAL EXPENSES														

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	Habitatation 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	\$ 111,641	\$ 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	45,650	272,927
TOTAL SALARIES AND RELATED EXPENSES	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
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	-	-	-	-	-	-	-	-	-	128	-	-	32,738
Supplies	3,089	5,478	48,765	1,582	9,855	53,062	9,089	30,430	8,871	863	6,878	72	18,371	196,205
Telephone	2,400	8,028	17,850	1,056	10,268	2,867	10,711	5,347	286	2,351	2,018	256	6,014	69,452
Postage and freight	2,891	380	2,539	14	980	337	354	2,720	2,801	426	8,086	233	2,771	24,512
Equipment repairs and rental	1,359	988	247,869	643	3,029	717	547	12,633	-	9,445	76,205	288	898	354,621
Transportation	1,793	249	6,517	89	120	540	7	20	-	181	687	-	705	10,908
Occupancy and lease expense	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	33,795	73,684
Printing and publications	100	5,754	482	333	1,688	-	4,323	1,896	9,120	107	2,050	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dues and subscriptions	102	276	136	26	630	415	231	180	848	723	17	24	132,445	223,515
Community housing expenses	17	45	21,767	8	546	69	157	2,687	-	37,148	1,715	7	16,261	19,869
Bad debt (recovery) expense, net	61,529	135,323	-	27,221	-	-	-	-	20,300	-	(171)	-	9,722	73,888
Miscellaneous expenses	55,809	10,443	42	9,664	6,414	20,999	5,126	31,058	-	7,061	14,780	74	11,144	244,202
TOTAL OPERATING EXPENSES	373,420	206,226	425,161	46,060	75,189	99,561	118,420	99,014	89,600	96,986	129,665	3,933	358,878	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	39,996	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 STATEMENTS OF CASH FLOWS

for the years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 146,604	\$ 619,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	304,522	277,766
Forgiveness of debt	-	(41,000)
Non-cash contributions	-	(440,000)
Bad debt expense, net	143,620	244,202
Unrealized (gain) loss on investments - available for sale	96,269	71,224
(Increase) decrease in:		
Accounts, grants, and fees receivable	(97,189)	(231,729)
Pledges receivable, net	28,533	31,660
Inventory	(1,843)	2,956
Other current assets	12,593	2,272
Accounts receivable - related party	(1,381)	(147,949)
Increase (decrease) in:		
Accounts payable	98,430	(316,561)
Accrued wages and other accrued liabilities	(94,070)	118,877
	<u>636,088</u>	<u>191,195</u>
INVESTING ACTIVITIES		
(Purchase) of certificates of deposit	(526)	(689)
Sale (purchase) of investments - available for sale	(37,710)	54,939
Repayment of note receivable	-	119,000
Purchases of property and equipment	(337,019)	(303,772)
	<u>(375,255)</u>	<u>(130,522)</u>
FINANCING ACTIVITIES		
Short-term bank borrowings, net	113,460	17,738
Proceeds from the issuance of long-term debt	128,702	380,022
Payments on long-term debt	(432,983)	(399,657)
Payments on bonds payable, net	(80,722)	(90,426)
Forgiveness of debt	-	41,000
Other payable - Housing Program	343	202
	<u>(271,200)</u>	<u>(51,121)</u>
INCREASE (DECREASE) IN CASH	(10,367)	9,552
CASH		
Beginning of year	<u>36,861</u>	<u>27,309</u>
End of year	<u>\$ 26,494</u>	<u>\$ 36,861</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Purchases of property and equipment:		
Cost of property and equipment acquisition	\$ (570,605)	\$ (2,378,981)
Non-cash contributions on purchases	-	445,873
Accounts receivable applied towards purchases	-	185,000
Property and equipment acquired with notes payable	<u>233,586</u>	<u>1,444,336</u>
Net cash paid for purchases of property and equipment	<u>\$ (337,019)</u>	<u>\$ (303,772)</u>
Forgiveness of Debt:		
Notes receivable - Housing Program	\$ 17,801	\$ 19,733
Other payable - Housing Program	(17,801)	(19,733)
Long-term debt	-	41,000
	<u>\$ -</u>	<u>\$ 41,000</u>
SUPPLEMENTAL DISCLOSURE		
Interest paid	<u>\$ 152,922</u>	<u>\$ 148,888</u>

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 and housing assistance, construction for low income families, thrift-shop sales, senior programs and other services.

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 Holdings, LLC, Rivers Edge Holdings, LLC, and Forest Glen Holdings, LLC, all wholly-owned subsidiaries of New Hope Services, Inc., had no significant activity in 2009 or 2008. See Note 12 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, 2009, 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, thrift shop sales and rental income. 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, 2009 and 2008.

Receivables

The Agency uses the allowance method of valuing receivables 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, 2009 and 2008 with respect to accounts receivable-workshop contracts. See notes within the financial statements for additional information for receivables relating to grants and fees, pledges, notes and related parties.

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 and/or land under construction. See Note 6 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 incurred with the negotiation of bond financing are amortized ratably over the life of the bonds. Unamortized bond fees are netted against the bonds outstanding. Costs of \$15,100 relating to the renegotiation of the bonds are being amortized ratably over the life of the bonds, through 2020. Amortization expense was \$1,007 for each of the years ended June 30, 2009 and 2008. See Note 9 for additional information.

Advertising

The Agency expenses advertising costs when incurred. Advertising costs were \$17,558 and \$22,377 for the years ended June 30, 2009 and 2008, respectively.

Cost Allocation/Functional Allocation of Expenses

Costs directly identifiable to a particular function are charged to that function. Costs of joint activities are allocated between fundraising and the appropriate program or management and general functions based on management's estimates. Indirect costs are allocated to the various programs by means of a method which management believes best allocates cost in accordance with the benefits derived and is equitable to both the Federal Government and the Agency. The costs of providing the various programs and other supporting activities have been summarized on a functional basis in the Consolidated Statements of Activities.

Subsequent Events

The Agency has evaluated events and transactions for potential recognition or disclosure through December 14, 2009, the date the financial statements were available to be issued.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Income Taxes

FASB Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes; originally effective for fiscal years beginning after December 15, 2007, was issued to provide recognition and measurement requirements for accounting for uncertain tax positions taken on a tax return for all entities, including pass-through entities such as S corporations and partnerships. FASB Staff Position ("FSP") FIN 48-3 was issued on December 30, 2008 to defer the effective date of FIN 48 until fiscal years beginning after December 15, 2008.

In accordance with FSP FIN 48-3, the Agency has elected to defer the application of FIN 48. The Agency has implemented a policy to evaluate all local, state, and federal income tax returns for potential uncertain tax positions taken, as defined by FIN 48, in the year in which the tax returns are filed.

NOTE 2—FAIR VALUE MEASUREMENTS

The financial statements reflect the adoption of Statement of Financial Accounting Standards No. 157 ("SFAS No. 157"), *Fair Value Measurements*. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 17, 2007. SFAS No. 157 established a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurement.

In accordance with SFAS 157, fair value is defined as the price that the Agency would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market of the investment. SFAS 157 established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed below:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities that are traded in an active exchange market.
- Level 2 – Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments as well as debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 2—FAIR VALUE MEASUREMENTS—Continued

- Level 3 – Unobservable inputs that are supported by little or no market activity and are significant to the fair value of assets or liabilities. Level 3 includes assets and liabilities whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Agency's assumptions about the assumptions market participants would use as well as those requiring significant management judgment.

Fair values of financial assets measured on a recurring basis at June 30, 2009 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments (See Note 5)	\$ 277,928	\$ 277,928	\$ -	\$ -
	<u>\$ 277,928</u>	<u>\$ 277,928</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE 3—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, 2009 and 2008, grant and fees receivable consist of the following:

	<u>2009</u>	<u>2008</u>
Indiana Department of Family and Children Services	\$ 334,228	\$ 418,718
County taxes	253,020	253,020
Department of Mental Health (Title XX)	14,984	34,036
Vocational Rehabilitation	21,383	14,011
Medicaid	70,568	68,598
Medicaid waiver	76,635	15,243
	<u>\$ 770,818</u>	<u>\$ 803,626</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 4—PLEDGES RECEIVABLE-PROMISES TO GIVE

In a prior year, the Agency initiated a fund-raising campaign to support construction projects of the Agency. Pledge commitments established during the campaign for a period greater than one year have been accrued and discounted to net present value. Promises to give at June 30, 2009 and 2008 are as follows:

	2009		
	Unrestricted	Restricted	Total
Pledges receivable (capital campaign):			
Receivable in less than one year	\$ 9,432	\$ 11,500	\$ 20,932
Receivable in one to five years	1,200	500	1,700
Total pledges to give	10,632	12,000	22,632
Less discount to net present value	(1,210)	(1,365)	(2,575)
Less allowance for uncollectible pledges receivable	(1,480)	(1,670)	(3,150)
Total discount and allowance for pledges receivable	(2,690)	(3,035)	(5,725)
Net pledges receivable	\$ 7,942	\$ 8,965	\$ 16,907
	2008		
	Unrestricted	Restricted	Total
Pledges receivable (capital campaign):			
Receivable in less than one year	\$ 11,300	\$ 18,500	\$ 29,800
Receivable in one to five years	9,365	12,000	21,365
Total pledges to give	20,665	30,500	51,165
Less discount to net present value	(1,665)	(2,457)	(4,122)
Less allowance for uncollectible pledges receivable	(647)	(956)	(1,603)
Total discount and allowance for pledges receivable	(2,312)	(3,413)	(5,725)
Net pledges receivable	\$ 18,353	\$ 27,087	\$ 45,440

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:

Year Ending June 30	Amount
2010	\$ 20,932
2011	1,700
Total	\$ 22,632

Total pledge commitments received for the years ended June 30, 2009 and 2008 were approximately \$133,000 and \$206,000, respectively. These commitments include both annual commitments established during the fundraising campaign and other donations received during the year.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 5—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, 2009 and 2008:

	2009	2008
Common stock	\$ 8,700	\$ 18,315
Mutual funds	265,602	316,079
Cash and cash equivalents	<u>3,626</u>	<u>2,093</u>
Fair market value	<u>\$ 277,928</u>	<u>\$ 336,487</u>
Cost basis	<u>\$ 427,389</u>	<u>\$ 389,679</u>

The investment return for the years ended June 30, 2009 and 2008 is as follows:

Dividend income	\$ 12,063	\$ 14,705
Capital gain distributions	147	13,971
Unrealized gain (loss) on investments	<u>(96,269)</u>	<u>(71,224)</u>
	<u>\$ (84,059)</u>	<u>\$ (42,548)</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 2 for additional information.

Investments with a market value of \$216,222 at June 30, 2009 serve as collateral under a second line of credit borrowing arrangement with Your Community Bank. See note 7 for additional information.

Mutual Funds include \$61,706 and \$49,075 of deferred compensation investments, at market value, at June 30, 2009 and 2008, respectively. These amounts do not serve as collateral for borrowing arrangements of the Agency. See Note 13 for additional information about investments relating to deferred compensation arrangements.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 6—WORK-IN-PROCESS AND NOTES RECEIVABLE

HOUSING PROGRAM

The Agency constructs affordable housing using various financing arrangements as subsidies for buyers. At June 30, 2009 and 2008, \$20,990 was capitalized and included in work-in-process on the Consolidated Statements of Financial Position. Work-in-process consists of homes and/or land under construction. To assist in the sale of these constructed homes, the Agency is holding notes receivable on all of the properties. There are currently twenty-eight 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 \$166,715 and \$184,516 at June 30, 2009 and 2008, 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-four notes are being forgiven over five years. With respect to these loans, an offsetting liability has been booked in the amount of \$134,348 and \$151,806 at June 30, 2009 and 2008, respectively. This liability has been classified as Other payable - Housing Program on the Consolidated Statements of Financial Position.

NOTE 7—SHORT-TERM BANK BORROWINGS

The Agency has an \$850,000 line of credit, expiring February 2010, with Your Community Bank. The line of credit bears interest at prime (3.25% at June 30, 2009) with a floor rate of 5.50% and is secured by real estate of the Agency. The outstanding borrowings under the line of credit were \$721,769 and \$592,559 at June 30, 2009 and 2008, respectively.

The Agency has a second line of credit with Your Community Bank, expiring March 2010. Amounts available for borrowing under the line of credit arrangement are \$280,000. The line of credit bears interest at prime plus one percent (4.25% at June 30, 2009) with a floor rate of 5.50%. This line of credit is secured by investments of the Agency. See Note 5 for additional information on investments used as collateral. The outstanding borrowings under this line of credit were \$220,250 and \$280,000 at June 30, 2009 and 2008, respectively.

During 2008, the Agency secured three additional draw-down lines of credit with New Washington State Bank. Amounts available for borrowing under these lines of credit were \$237,000, \$63,000, and \$50,000, respectively. All three lines of credit were subsequently refinanced after the year ended June 30, 2009. The lines of credit secured for \$237,000 and \$50,000 were converted to permanent financing. See Note 8 for additional information. The line of credit for \$63,000 was converted to a short-term note. The note bears interest at 5.50%, is unsecured, and expires January 2010. The outstanding borrowing under this short-term note was \$44,000 at June 30, 2009.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 8—NOTES PAYABLE

Long-term debt at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
MainSource 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.	\$ 728,093	\$ 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.	289,796	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.	360,302	365,481
MainSource Bank, in monthly installments of \$2,135, including interest at prime (3.25% at June 30, 2009) through July 2013, secured by real estate.	96,000	-
GMAC, in monthly installments of \$595, including interest at 5.90% through June 2013, secured by a vehicle.	25,457	30,856
Your Community Bank, in monthly installments of \$244, including interest at 7.75% through March 2011, secured by a vehicle.	4,767	7,208
The New Washington State Bank, in monthly installments of \$1,936, including interest at 4.00% through August 2014, secured by real estate. See Note 7 for additional information as these terms reflect subsequent financing secured after the year ended June 30, 2009.	219,380	-
The New Washington State Bank, in monthly installments of \$982, including interest at 6.50% through October 2014, secured by equipment. See Note 7 for additional information as these terms reflect subsequent financing secured after the year ended June 30, 2009.	22,908	-
The New Washington State Bank, including interest at prime, secured by real estate, repaid in 2008.	-	380,023
Total notes payable	1,746,703	1,817,398
Less current portion	(64,183)	(408,258)
Notes payable, less current portion	<u>\$ 1,682,520</u>	<u>\$ 1,409,140</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 8—NOTES PAYABLE—Continued

At June 30, 2009, long-term debt matures as follows:

Year ending June 30	Amount
2010	\$ 64,183
2011	74,693
2012	74,523
2013	403,632
2014	34,168
Thereafter	<u>1,095,504</u>
Total	<u>\$ 1,746,703</u>

Interest expense was \$201,864 and \$223,515 for the years ended June 30, 2009 and 2008, respectively.

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, 2009, 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, 2009 and 2008, the bonds outstanding are summarized as follows:

	2009	2008
Total amount originally financed	\$ 916,250	\$ 916,250
Additional bond purchases	583,750	583,750
Cumulative bond payments made	<u>(335,587)</u>	<u>(254,865)</u>
Total bonds outstanding	1,164,413	1,245,135
Loan fees, net of accumulated amortization of \$4,530 and \$3,523 at June 30, 2009 and 2008, respectively	<u>(10,569)</u>	<u>(11,576)</u>
Bonds payable, net	1,153,844	1,233,559
Less current portion	<u>(87,037)</u>	<u>(82,842)</u>
Bonds payable, less current portion	<u>\$ 1,066,807</u>	<u>\$ 1,150,717</u>

At June 30, 2009, the bond obligations mature as follows:

Year ending June 30	Amount
2010	\$ 87,037
2011	91,445
2012	96,075
2013	100,941
2014	106,052
Thereafter	<u>682,863</u>
Total	<u>\$ 1,164,413</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 10—TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2009 and 2008:

	2009	2008
Senior Center	\$ 1,000	\$ 4,000
General Facilities	5,000	14,500
Kids Place	1,000	2,000
Wall Street Facilities	5,000	10,000
Total temporarily restricted net assets	<u>12,000</u>	<u>30,500</u>
Less discount to net present value	(1,365)	(2,457)
Less allowance for uncollectible net assets	<u>(1,670)</u>	<u>(956)</u>
Total discount and allowance for temporarily restricted net assets	<u>(3,035)</u>	<u>(3,413)</u>
Net temporarily restricted net assets	<u>\$ 8,965</u>	<u>\$ 27,087</u>

NOTE 11—OPERATING LEASES

Lease Income

During 2008, the Agency leased classroom and office space to an unrelated party. The monthly lease payment received by New Hope Services, Inc. for this operating lease was \$690. During September 2008, the lease was terminated and not renewed. The total lease income received was \$2,070 and \$140,261 for the years ended June 30, 2009 and 2008. Total lease income received during the year ended June 30, 2008 included lease arrangements with an unrelated party for employees and office space. This lease expired during the year ended June 30, 2008 and was not renewed.

Lease Expense

During the year ended June 30, 2008, 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 year ended June 30, 2008 was \$1,807. During the year ended June 30, 2009, the Agency entered into three operating leases for use of office equipment. Total lease expense for the year ended June 30, 2009 was \$317. Future minimum lease payments relating to these equipment leases as of June 30, 2009 are as follows:

Year ending June 30	Lease #1 Amount	Lease #2 Amount	Lease #3 Amount	Total
2010	\$ 11,088	\$ 1,848	\$ 1,692	\$ 14,628
2011	10,488	1,848	1,692	14,028
2012	10,488	1,848	1,692	14,028
2013	10,488	1,848	1,692	14,028
2014	8,740	-	-	8,740
	<u>\$ 51,292</u>	<u>\$ 7,392</u>	<u>\$ 6,768</u>	<u>\$ 65,452</u>

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 11—OPERATING LEASES—Continued

During 2008, the Agency entered into lease arrangements for two thrift store locations (Lease #1 and Lease #2). Lease #1 has monthly lease payments of \$5,100 and is due to expire in October 2009. It is management's intent not to renew this lease. Subsequent to the year end, management entered into an agreement to relocate its operations of this thrift store and secured an operating lease with an unrelated third party (Lease #3). The terms of this lease call for monthly payments of \$6,000. The lease expires in October 2010. Lease #2 expires in February 2010 and has monthly payments of \$2,867. All leases are located in southern Indiana. Total lease expense under leases for thrift store operations for the years ended June 30, 2009 and 2008 was approximately \$77,000 and \$64,000, respectively. Future minimum lease payments relating to these leases as of June 30, 2009 are as follows:

Year ending June 30	Lease #1 Amount	Lease #2 Amount	Lease #3 Amount	Total
2010	\$ 15,300	\$ 34,404	\$ 48,000	\$ 97,704
2011	-	8,601	24,000	32,601
Total	\$ 15,300	\$ 43,005	\$ 72,000	\$ 130,305

NOTE 12—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 is anticipated to be paid on developer's fees received in future periods; therefore, no discounts have been recognized at June 30, 2009 and 2008.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 12—RELATED PARTY TRANSACTIONS—Continued

The amount of developer's fees receivable from related parties at June 30, 2009 and 2008 consist of the following:

	2009	2008
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)
Plus advances to related parties	85,114	79,498
Less amount receivable (payable) from/to unrelated party	-	4,235
Total accounts receivable - related party, net	1,011,418	1,010,037
Less current portion	-	-
Accounts receivable - related party, non current portion	\$ 1,011,418	\$ 1,010,037

Included in advances to related parties are funds advanced to Highland Glen, LP; Quartermaster, LP; and Willow Trace, LP to meet various operating needs of the respective entities.

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

See Note 18 for information regarding loan guarantees.

NOTE 13—RETIREMENT AND DEFERRED COMPENSATION PLAN

The Agency has a 401(k) retirement plan (the "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 401(k) plan by the Agency for the years ended June 30, 2009 and 2008 were \$100,880 and \$80,683, respectively.

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

The Agency has a non-qualified deferred compensation plan for the chief executive officer (CEO). The Internal Revenue Code allows tax-exempt organizations to establish deferred compensation plans for certain individuals of the Agency. The deferred compensation plan requires the CEO to remain at his position in the Agency for five years from the plan's date of inception (August 30, 2005). If the CEO were to leave the Agency before the five year period, the Agency would not be required to distribute any contributions or investment earnings. During the year ended June 30, 2008, the Agency contributed and expensed \$15,500 under this deferred compensation arrangement. The contribution was made subsequent to the year ended June 30, 2008.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 13—RETIREMENT AND DEFERRED COMPENSATION PLAN—Continued

During the year ended June 30, 2009, the Agency established an additional deferred compensation plan (Second Plan) to retain the services of its CEO through December 31, 2010. The Agency contributed and expensed \$10,000 to the Second Plan for the year ended June 30, 2009. If the CEO were to leave before December 31, 2010, the Agency would not be required to distribute any contributions or investment earnings from the Second Plan to the CEO.

The fair market value of the investment in both plans totaled \$61,706 and \$49,075 as of June 30, 2009 and 2008, respectively, and is included in "Investments – available for sale" on the Consolidated Statement of Financial Position. See Note 5 for additional information regarding Investments.

NOTE 14—GOVERNMENTAL AGENCIES' SUPPORT

Governmental agencies' support consists of the following:

	<u>2009</u>	<u>2008</u>
Program Service Fees:		
Indiana Family and Social Services Administration	\$ 298,228	\$ 203,921
Title XX	172,237	192,757
Miscellaneous fees	60,294	58,195
Scott County service fees - preschool	-	224,108
Medicaid	1,700,393	1,794,903
WIC	656,158	599,160
County DFC Offices	741,560	363,480
Community Partners for Child Safety	506,101	366,931
Intensive Services	38,794	72,190
Indiana Department of Family and Children's Services	<u>972,722</u>	<u>912,919</u>
	<u>5,146,487</u>	<u>4,788,564</u>
Grants:		
Indiana Housing Finance Authority (Housing Program)	467,712	377,666
CAPE	30,000	30,000
Other grants	<u>47,323</u>	<u>10,238</u>
	<u>545,035</u>	<u>417,904</u>
Taxes:		
County tax	<u>501,603</u>	<u>490,243</u>
Total Governmental Agencies' Support	<u>\$ 6,193,125</u>	<u>\$ 5,696,711</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.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

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 for vacation days does not allow unused vacation time to be carried to a future period; accordingly no liability has been recorded in the accompanying financial statements.

NOTE 17—CONCENTRATION OF RISK

Cash Concentration Risk

The Agency maintains its cash and certificates of deposit with various financial institutions which, at times may exceed the amount insured by the Federal Deposit Insurance Corporation of \$250,000 at June 30, 2009.

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 12. 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, 2009, the guaranteed loans balances were approximately \$5,000,000.

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. The liability recorded for the year ended June 30, 2008 was \$65,481. This liability was included with accrued wages and other accrued liabilities as a current liability in the Consolidated Statement of Financial Position. During the year ended June 30, 2009, management along with its legal counsel received guidance from the U.S. Department of Labor that the wages paid for work performed by these adults was not subject to Social Security and Medicare withholding. Accordingly, the liability was reversed and applied against payroll related tax expenses for the year ended June 30, 2009.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

NOTE 19—WORKING CAPITAL DEFICIT

Because of the nature of the classifications of certain assets and liabilities, the Agency has a working capital deficit of \$526,893 at June 30, 2009. During the current year, the Agency entered into short-term borrowing obligations to support the expansion of program offerings. The borrowings were used for remodeling expenses and staffing costs as functioning facilities and staff needed to be in place before operations began. It is not anticipated the classifications of these major assets and liabilities will change. Management is aware of the working capital deficit and expects to continue to meet their current obligations from current operational performance and future performance from newly implemented programs.

NOTE 20—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.

NEW HOPE SERVICES, INC. AND SUBSIDIARIES
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

for the year ended June 30, 2009

<u>Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Expenses</u>
U.S. Department of Transportation Highway Training and Education	20.215	\$ 46,282
<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	119,703
Temporary Assistance for Needy Families (Healthy Families Indiana)	93.558	860,145
Child Welfare Services State Grants (Title IV-B Part I Scott and Clark)	93.645	7,217
Promoting Safe and Stable Families (Title IV-B Part II Scott and Clark)	93.556	34,908
Social Services Block Grant (Title XX 1801)	93.667	165,902
Indiana Department of Child Services Community Partners for Child Safety	93.580	21,750
Total U.S. Department of Health and Human Services		<u>1,209,625</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	656,159
Indiana Department of Education: Child and Adult Care Food Program (CACFP)	10.558	33,960
Total U.S. Department of Agriculture		<u>690,119</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	235,600
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 2,181,626</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, 2009, and have issued our report thereon dated December 14, 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.

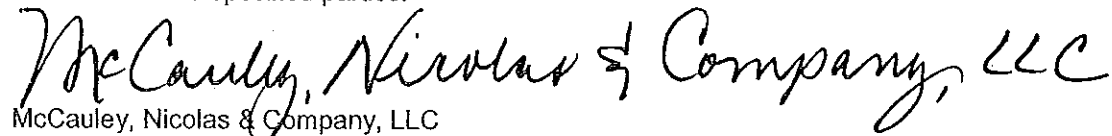
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

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 pass-through entities, 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
December 14, 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, 2009. 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, 2009.

Internal Control Over Compliance

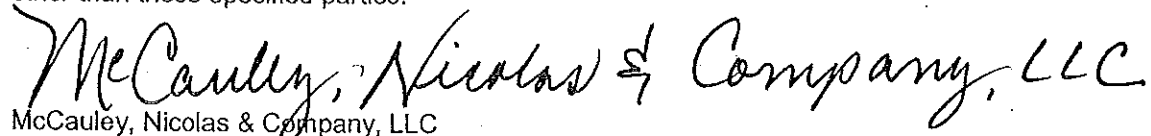
The management of New Hope Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered New Hope Services, Inc.'s 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 pass-through entities, 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
December 14, 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>
10.557	Women, Infants, & Children ("WIC")
93.596	Child Care and Development Fund ("CCDF")

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.