

**New Directions, Inc. and Subsidiaries  
(A California Nonprofit Corporation)**

**Consolidated Financial Statements  
(With Supplementary Information)  
and Independent Auditor's Report**

**December 31, 2020**

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# **New Directions, Inc. and Subsidiaries**

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## Independent Auditor's Report

To the Board of Directors  
New Directions, Inc.

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of New Directions, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The subsidiaries of New Directions, Inc. were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Directions, Inc. and Subsidiaries as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating statements of financial position, and activities are presented for purposes of additional analysis of the consolidated financial statements, rather than to present the financial positions and results of operations of the individual entities and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

*Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2022, on our consideration of New Directions, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of New Directions, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Direction's Inc.'s internal control over financial reporting and compliance.



Los Angeles, California  
November 29, 2022

**New Directions, Inc. and Subsidiaries**  
**Consolidated Statement of Financial Position**  
**December 31, 2020**

Assets

|                             |                                |
|-----------------------------|--------------------------------|
| Cash and cash equivalents   | \$ 1,762,079                   |
| Contracts receivable, net   | 458,057                        |
| Other accounts receivable   | 368,527                        |
| Prepaid and other assets    | 111,666                        |
| Property and equipment, net | <u>914,873</u>                 |
| <br>Total assets            | <br><u><u>\$ 3,615,202</u></u> |

Liabilities and Net Assets

|   |                                |
|---|--------------------------------|
| Liabilities                                 |                                |
| Accounts payable                            | \$ 151,668                     |
| Accrued liabilities                         | 338,305                        |
| Accountability for government-funded assets | 478,708                        |
| PPP loan                                    | <u>899,600</u>                 |
| <br>Total liabilities                       | <br><u>1,868,281</u>           |
| Net assets (deficit)                        |                                |
| Without donor restrictions                  | (659,617)                      |
| With donor restrictions                     | <u>2,406,538</u>               |
| <br>Total net assets                        | <br><u>1,746,921</u>           |
| <br>Total liabilities and net assets        | <br><u><u>\$ 3,615,202</u></u> |

See Notes to Consolidated Financial Statements.

**New Directions, Inc. and Subsidiaries**

**Consolidated Statement of Activities  
Year Ended December 31, 2020**

|                                       | <u>Without<br/>donor restrictions</u> | <u>With<br/>donor restrictions</u> | <u>Total</u>                   |
|---------------------------------------|---------------------------------------|------------------------------------|--------------------------------|
| Revenue and support                   |                                       |                                    |                                |
| Fees for services                     | \$ 3,691,921                          | \$ -                               | \$ 3,691,921                   |
| Government contracts and grants       | 1,011,866                             | -                                  | 1,011,866                      |
| Grants and contributions              | 394,964                               | 351,245                            | 746,209                        |
| Program income                        | 861,752                               | -                                  | 861,752                        |
| Developer fees                        | 305,702                               | -                                  | 305,702                        |
| Rental income                         | 171,113                               | -                                  | 171,113                        |
| In-kind contributions                 | 92,800                                | -                                  | 92,800                         |
| Special events revenue                | 92,182                                | -                                  | 92,182                         |
| Other income                          | 34,000                                | -                                  | 34,000                         |
| Net assets released from restriction  | <u>239,288</u>                        | <u>(239,288)</u>                   | <u>-</u>                       |
| <br>Total revenue and support         | <br><u>6,895,588</u>                  | <br><u>111,957</u>                 | <br><u>7,007,545</u>           |
| <br>Expenses                          |                                       |                                    |                                |
| Program services                      | 5,716,286                             | -                                  | 5,716,286                      |
| Support services                      | 1,063,119                             | -                                  | 1,063,119                      |
| Fundraising                           | <u>377,861</u>                        | <u>-</u>                           | <u>377,861</u>                 |
| <br>Total expenses                    | <br><u>7,157,266</u>                  | <br><u>-</u>                       | <br><u>7,157,266</u>           |
| <br>Change in net assets              | <br>(261,678)                         | <br>111,957                        | <br>(149,721)                  |
| <br>Net assets, beginning of year     | <br><u>(397,939)</u>                  | <br><u>2,294,581</u>               | <br><u>1,896,642</u>           |
| <br>Net assets (deficit), end of year | <br><u><u>\$ (659,617)</u></u>        | <br><u><u>\$ 2,406,538</u></u>     | <br><u><u>\$ 1,746,921</u></u> |

See Notes to Consolidated Financial Statements.

**New Directions, Inc. and Subsidiaries**

**Consolidated Statement of Functional Expenses  
Year Ended December 31, 2020**

|                                     | <u>Program<br/>services</u> | <u>Support<br/>services</u> | <u>Fundraising</u>       | <u>Total</u>               |
|-------------------------------------|-----------------------------|-----------------------------|--------------------------|----------------------------|
| Salaries and related expenses       |                             |                             |                          |                            |
| Salaries                            | \$ 3,420,063                | \$ 358,100                  | \$ 193,483               | \$ 3,971,646               |
| Employee benefits and payroll taxes | <u>982,031</u>              | <u>102,771</u>              | <u>57,095</u>            | <u>1,141,897</u>           |
| Total personnel costs               | 4,402,094                   | 460,871                     | 250,578                  | 5,113,543                  |
| Expenses                            |                             |                             |                          |                            |
| Advertising and public relations    | 3,099                       | 1,794                       | 544                      | 5,437                      |
| Auto                                | 29,385                      | 300                         | 300                      | 29,985                     |
| Bank charges                        | 5,982                       | 3,463                       | 1,049                    | 10,494                     |
| Bad debt                            | 13,692                      | -                           | -                        | 13,692                     |
| Conferences and education           | 4,167                       | 11                          | 109                      | 4,287                      |
| Depreciation                        | -                           | 241,024                     | -                        | 241,024                    |
| Drug testing                        | 17,805                      | 10,308                      | 3,124                    | 31,237                     |
| Dues and subscriptions              | 23,762                      | 13,757                      | 4,169                    | 41,688                     |
| Equipment rental and maintenance    | 22,817                      | 1,268                       | 1,268                    | 25,353                     |
| Food costs                          | 239,078                     | -                           | 181                      | 239,259                    |
| Insurance                           | 72,952                      | 42,235                      | 12,799                   | 127,986                    |
| Legal and audit                     | 21,149                      | 12,244                      | 3,710                    | 37,103                     |
| Licenses and fees                   | 28,038                      | 16,232                      | 4,919                    | 49,189                     |
| Miscellaneous                       | 65,552                      | 38,866                      | 16,362                   | 120,780                    |
| Other resident costs                | 25,946                      | 1,441                       | 1,441                    | 28,828                     |
| Outside professional services       | 248,185                     | 143,686                     | 43,541                   | 435,412                    |
| Postage and delivery                | 1,774                       | 1,027                       | 311                      | 3,112                      |
| Printing                            | 1,843                       | 1,067                       | 323                      | 3,233                      |
| Repairs and maintenance             | 175,087                     | 9,727                       | 9,727                    | 194,541                    |
| Rent                                | 4,613                       | 256                         | 256                      | 5,125                      |
| Small equipment                     | 63,047                      | 3,503                       | 3,503                    | 70,053                     |
| Supplies                            | 148,830                     | 34,042                      | 10,316                   | 193,188                    |
| Property tax                        | 10,848                      | 603                         | 603                      | 12,054                     |
| Telephone                           | 41,303                      | 23,912                      | 7,246                    | 72,461                     |
| Transportation and parking          | 288                         | 3                           | 3                        | 294                        |
| Travel                              | 22,451                      | 229                         | 229                      | 22,909                     |
| Utilities                           | <u>22,499</u>               | <u>1,250</u>                | <u>1,250</u>             | <u>24,999</u>              |
|                                     | <u><u>\$ 5,716,286</u></u>  | <u><u>\$ 1,063,119</u></u>  | <u><u>\$ 377,861</u></u> | <u><u>\$ 7,157,266</u></u> |

See Notes to Consolidated Financial Statements.

**New Directions, Inc. and Subsidiaries**

**Consolidated Statement of Cash Flows**  
**Year Ended December 31, 2020**

|  |                            |
|--|----------------------------|
| Cash flows from operating activities   |                            |
| Change in net assets   | \$ (149,721)               |
| Adjustments to reconcile change in net assets to net cash used in operating activities |                            |
| Depreciation   | 241,024                    |
| (Increase) decrease in operating assets  |                            |
| Contracts receivable   | 143,011                    |
| Pledges receivable   | 160,000                    |
| Other accounts receivable  | (209,740)                  |
| Prepaid and other assets   | (86,379)                   |
| Increase (decrease) in operating liabilities   |                            |
| Accounts payable   | (113,361)                  |
| Accrued liabilities  | <u>(23,196)</u>            |
| Net cash used in operating activities  | <u>(38,362)</u>            |
| Cash flows from financing activities   |                            |
| Proceeds from PPP loan   | <u>899,600</u>             |
| Net increase in cash and cash equivalents  | 861,238                    |
| Cash and cash equivalents, beginning   | <u>900,841</u>             |
| Cash and cash equivalents, end   | <u><u>\$ 1,762,079</u></u> |

See Notes to Consolidated Financial Statements.



**New Directions, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

**Note 1 - Business activity**

New Directions, Inc. was organized pursuant to the General Nonprofit Corporation Law of the State of California for the purposes of empowering men and women who served in the military and their families to lead productive and fulfilling lives. New Directions, Inc. continues to do business as New Directions for Veterans.

Since 1992, the agency has been a haven for veterans and has served over 1,200 homeless and at-risk veterans annually with housing and support services that they need to get their lives on track. The agency offers a rich array of transformational services tailored to meet the needs of each individual veteran. Primary services include affordable Housing Placements and Development, Vocational and Educational Services, Workforce Development and Job Training, Case Management, Mental Health Counseling, and Substance Use Treatment in the context of its transitional housing programs for both men and women veterans. These comprehensive services are offered at eight locations. Since 2011, New Directions, Inc. launched a homelessness prevention program and is actively engaged in veteran specific public policy and advocacy.

New Directions, Inc. is the sole member of New Directions Housing, LLC and New Directions West Adams, LLC, and New Directions Housing II, California limited liability companies, established in 2005, 2016, and 2019, respectively, that focus on housing needs for veterans. A combined total of 512 units of permanent supportive housing for formerly homeless veterans, were in operation in 2020. Case management services are provided onsite to veterans at its permanent supportive housing units. The agency also established a welcome center in 2015, partnering with West Los Angeles, offering a 24/7 drop-in center and a bridge housing program with around the clock care.

New Directions, Inc. formed New Directions Housing, LLC (formerly known as New Directions Sepulveda, LLC) to be the co-general partner of two limited partnerships New Directions, Inc. Sepulveda I, LP and New Directions, Inc. Sepulveda II, LP. These two partnerships were formed to lease, develop, secure funding, rehabilitate and operate two buildings on the Sepulveda Veteran Affairs site for supportive housing for homeless veterans. The construction of 147 units of permanent supportive housing on the designated site began in late 2011 and was completed in mid-2013. 40 units at El Monte and 32 units at Guy Gabaldon Senior Apartments completed construction and were occupied in 2014. In addition, the 43 units at Glendale Veteran Village, and 11 units in Burbank completed construction and were placed into service in 2015.

New Directions, Inc. formed New Directions West Adams, LLC to be the managing general partner of a limited partnership, LA New Directions West Adams, LP. (formerly known as Los Angeles South West View Partners, LP). New Directions West Adams, LLC is organized and operated exclusively to further the tax-exempt purpose of New Directions, Inc.

New Directions, Inc. formed New Directions Housing II, LLC and is the sole member. The entity was created for the development and preservation of affordable housing for homeless and low income veterans, veterans' families and other low income persons. The entity had no activity for the year ended December 31, 2020.

**Note 2 - Summary of significant accounting policies**

**Principles of consolidation**

The accompanying consolidated financial statements include the accounts of New Directions, Inc., New Directions Housing, LLC, New Directions West Adams, LLC, and New Directions Housing II

## **New Directions, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements December 31, 2020**

(collectively the "Organization"). All intercompany transaction and balances have been eliminated in consolidation.

#### **Basis of presentation**

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

#### **Financial statement presentation**

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions, which are described as follows:

*Net Assets Without Donor Restrictions* - Net assets for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve through a board-designated endowment. No such endowments existed as of December 31, 2020.

*Net Assets with Donor Restrictions* - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time, purpose, or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

#### **Cash and cash equivalents**

The Organization considers all highly-liquid investments with a maturity at the date of purchase of three months or less to be cash equivalents.

#### **Contracts receivable**

Contracts receivable are receivables primarily from governmental agencies. Contracts receivables from governmental agencies are primarily unsecured amounts due on cost reimbursement or performance contracts. These amounts are deemed fully collectible as they primarily related to contracted services. Also presented within contract receivables are receivables due to New Directions, Inc. and Subsidiaries from development partnership arrangements. Such receivables are recorded using the allowance method in order to reserve for potentially uncollectible contracts receivable.

Receipts from contracts are usually subject to audit by representatives of those agencies to determine if the monies were expended in accordance with appropriate statuses, contract terms, and regulations. Such audits could lead to a request for reimbursements to the grantor agencies. The Organization believes that no significant liabilities will be incurred as a result of such an audit.

#### **Contributions and pledges receivable**

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discount is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

## **New Directions, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements December 31, 2020**

Contributions are recognized as revenue when they are unconditionally promised. Contributions are recorded at their fair value as without donor restrictions or with donor restrictions, depending on the absence or existence of donor-imposed restrictions as applicable. When a restriction expires (that is when a stipulated time restriction ends or purpose restriction is fulfilled), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return to the donor, are not recognized until the conditions on which they depend have been substantially met. The Organization has no conditional promises to give at December 31, 2020.

#### **Government grants and contracts**

A portion of the Organization's revenue is derived from cost-reimbursement and per-diem federal and state contracts and grants, which are conditional upon certain performance requirements or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions or by participants on a per-diem contracted rate. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position.

#### **Fees for service and program income**

Fees for service and program income consist of funds paid on a per-diem basis, based on the number of participants present in the associated program. Census are taken each day and submitted to be reviewed and the per-diem rate is owed per participant present on a given day. Revenue is recognized when census submissions are approved.

#### **Special events revenue**

Special events revenue is comprised of an exchange element based upon the direct benefits donors receive and a contribution element for the difference. The Organization recognizes special events revenue equal to the fair value of direct benefits to donors when the special event takes place. The Organization recognizes the contribution element of special event revenue immediately, unless there is a right of return if the special event does not take place. All goods and services are transferred at a point in time.

#### **Donated materials and services**

Contributions of donated non-cash assets are measured on a non-recurring basis and recorded at fair value in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. The Organization recorded in-kind contributions of \$92,800 for the year ended December 31, 2020, all of which were donated materials.

#### **Concentration of credit risks**

The Organization places their temporary cash investments with high-credit, quality financial institutions. At times, such cash investments may be in excess of the Federal Deposit Insurance Corporation insurance limit. The Organization has not incurred losses related to these investments.

The contracts receivable balance outstanding at December 31, 2020 consists of government contracts receivables due from county, state, and federal granting agencies, and receivables from housing development partnership arrangements.

**New Directions, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

Concentration of credit risks with respect to the government contract receivables is limited, as these receivables consist of earned fees from contract programs granted by governmental agencies.

Approximately 68% of total revenue and support generated by the Organization for the year ended December 31, 2020 was derived from government contracts and service fees.

**Property and equipment**

Property and equipment are recorded at cost if purchased or at fair value at the date of donation if donated. Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets, between 5 and 25 years. Maintenance and repair costs are charged to expense as incurred. Property and equipment are capitalized if the cost of an asset is greater than or equal to \$5,000 and the useful life is greater than one year.

**Income taxes**

The Organization is exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d).

Generally accepted accounting principles provide accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the Organization in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

New Directions Housing, LLC, New Directions West Adams, LLC, and New Directions Housing II (the "Partnerships") are classified as partnerships for income tax purposes. The Partnerships' profits and loss are reportable by the members on their respective income tax returns. Accordingly, no provision for income taxes has been reflected in the consolidated financial statements except for the required minimum California state taxes applicable to limited liability companies of \$2,400 for the year ended December 31, 2020. Income tax returns filed by the Partnerships are subject to examination by the Internal Revenue Service (the "IRS") for three years. While no income tax returns are currently being examined by the IRS, tax years since 2017 remain open for examination. The Partnerships have no unrecognized tax benefits at December 31, 2020.

**Functional allocation of expenses**

Cost of providing the Organization programs and other activities have been presented in the consolidated statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program, support services, and fundraising by a method that best measures the relative degree of benefit. The Organization uses direct program costs to allocate indirect costs.

**Use of estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, and expenses as of the date and for the periods presented. Actual results could differ from those estimates.

**Subsequent events**

Management has evaluated subsequent events through November 29, 2022, the date which the consolidated financial statements were available for issue.

**New Directions, Inc. and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020**

**Note 3 - Liquidity and availability**

Financial assets available for general expenditures within one year consist of the following:

|   |                            |
|---|----------------------------|
| Cash and cash equivalents                                       | \$ 1,762,079               |
| Contracts receivable  | 458,057                    |
| Other accounts receivable                                       | 368,527                    |
| Less: net assets with donor<br>restrictions for time or purpose | <u>(256,538)</u>           |
|   | <u><u>\$ 2,332,125</u></u> |

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization anticipates collecting sufficient revenue to cover general expenditures.

**Note 4 - Contracts receivable**

Contracts receivable at December 31, 2020 consist of the following:

|                                       |                          |
|---------------------------------------|--------------------------|
| Contracts receivable                  | \$ 509,303               |
| Less: allowance for doubtful accounts | <u>(51,246)</u>          |
|                                       | <u><u>\$ 458,057</u></u> |

**Note 5 - Property and equipment**

Property and equipment at December 31, 2020 consist of the following:

|                                |                          |
|--------------------------------|--------------------------|
| Buildings and improvements     | \$ 5,722,220             |
| Furniture and equipment        | 761,944                  |
| Land                           | 337,186                  |
| Vehicles                       | <u>274,646</u>           |
|                                | 7,095,996                |
| Less: accumulated depreciation | <u>(6,181,123)</u>       |
|                                | <u><u>\$ 914,873</u></u> |

Depreciation expense for the year ended December 31, 2020 was \$241,024.

Included in the property and equipment above are fixed assets purchased with government funds. The government retains a reversionary interest in such property. Property acquired with these funds is considered to be owned by the Organization while used in the programs for which it was purchased or other future authorized programs. When the property is no longer in use, it reverts back to the funding agency, or if the property is sold, the funding agency determines the use of the proceeds. The total amount of government-funded assets as of December 31, 2020 was \$478,708. A corresponding liability is recorded for these government-funded assets at December 31, 2020. These accounts change with the purchase of assets with government funds.

**New Directions, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
December 31, 2020**

**Note 6 - Accrued liabilities**

Accrued liabilities at December 31, 2020 consist of the following:

|                  |                          |
|------------------|--------------------------|
| Accrued vacation | \$ 176,569               |
| Accrued expenses | 153,294                  |
| Accrued payroll  | <u>8,442</u>             |
|                  | <u><u>\$ 338,305</u></u> |

**Note 7 - PPP loan**

In April 2020, the Organization obtained a loan under the Small Business Administration's Paycheck Protection Program in the amount of \$899,600. The note has an interest rate of 1.00% per annum and is due in April 2022. Per the loan agreement, the Organization will make monthly principal and interest payments commencing November 1, 2020. Per the terms of the Paycheck Protection Program, a portion of the loan's principal may be forgiven depending on how the Organization uses the funds. In July 2021, the Organization received notification from its lender that full forgiveness of the PPP loan balance was approved which will be recorded as a gain on forgiveness during the year ended December 31, 2021.

**Note 8 - Commitments and contingencies**

**Obligations under operating leases**

The Organization is obligated under an operating lease, expiring August 2045, with the Department of Veterans Affairs ("VA") for their primary operating facilities (Building 116), at no rent, to conduct specific services for homeless veterans as defined. Due to the unique nature of the leased property (Building 116 and 257) being on federal land of the VA campus, a fair market value for comparable and equivalent rent is unascertainable. The lease provides for payment of certain costs, which totaled \$25,000 for the year ended December 31, 2020.

The Organization lease facilities and equipment under operating leases with various terms. Future minimum payments under these leases do not exceed one year.

**Contracts**

The Organization's contracts are subject to inspection and audit by the appropriate governmental funding agency. The purpose is to determine whether program funds were used in accordance with their respective guidelines and regulations. The potential exists for disallowance of previously-funded program costs. The Organization believes the ultimate liability, if any, which may result from these governmental audits often cannot be reasonably estimated and, accordingly the Organization has no current provision for the possible disallowance of program costs on its consolidated financial statements.

**Contingencies**

The Organization maintains four transitional housing facilities located in Los Angeles, California. The facilities (Building 116, Building 257, Mitchell House, and Keaveney House) are funded by government grants that restrict use to the purpose defined in the grant application, generally homeless veterans housing. If the facilities are not used for these purposes, the government agencies may request reimbursement for the costs funded by the grant, among other remedies.

## New Directions, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements December 31, 2020

For the year ended December 31, 2020, the U.S. Department of Veterans Affairs-West Los Angeles did not provide any funds nor grants for any acquisition or renovation of any transitional housing facilities maintained by the Organization.

#### Coronavirus

In December 2019, a novel strain of the coronavirus ("COVID-19") was reported. On March 11, 2020, the World Health Organization declared COVID-19 a global pandemic and recommended containment and mitigation measures worldwide. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of this disruption. Therefore, the extent of the financial impact and duration cannot be reasonably estimated at this time.

#### Note 9 - Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2020 consist of the following:

|  |                            |
|--|----------------------------|
| Time or purpose                          |                            |
| Women's program                          | \$ 73,150                  |
| Vocational services program              | 10,610                     |
| Neuro clinic                             | 49,803                     |
| Mental health services                   | 14,410                     |
| Repairs and maintenance                  | 57,399                     |
| Other                                    | 51,166                     |
|  | <hr/>                      |
|  | 256,538                    |
|  | <hr/>                      |
| Use of buildings                         |                            |
| Building 116                             | 1,750,000                  |
| Building 257                             | 400,000                    |
|  | <hr/>                      |
|  | 2,150,000                  |
|  | <hr/>                      |
| Total net assets with donor restrictions | <u><u>\$ 2,406,538</u></u> |

Net assets with donor restrictions consists of funding from the City of Los Angeles and the City of Santa Monica. The funding was provided in relation to the building renovations of Building 116 and Building 257 which are on the grounds of the Greater Los Angeles Healthcare System of the VA. Under the terms of the agreement, the buildings to which the funding is associated must be used in perpetuity for the delivery of services.

**New Directions, Inc. and Subsidiaries**

**Notes to Consolidated Financial Statements  
December 31, 2020**

**Note 10 - Government contracts and fees for services**

Government contracts and fees for services for the year ended December 31, 2020 consist of the following:

|  |                            |
|--|----------------------------|
| Intensive case management services               | \$ 410,441                 |
| Supportive Housing Program                       | <u>601,425</u>             |
| Government contracts                             | <u><u>\$ 1,011,866</u></u> |
| VA Grant Per Diem Welcome Center                 | \$ 846,099                 |
| VA Grant Per Diem Clinical                       | 1,106,963                  |
| VA Grant Per Diem Low Demand                     | 1,039,975                  |
| VA Grant Per Diem Bridge                         | 232,588                    |
| Department of Mental Health contract 840 and 842 | <u>466,296</u>             |
| Fees for services                                | <u><u>\$ 3,691,921</u></u> |

**Note 11 - Program income**

Program income for the year ended December 31, 2020 consists of the following:

|  |                          |
|--|--------------------------|
| Housing partners - permanent supportive services and case management | \$ 652,736               |
| Miscellaneous income   | <u>209,016</u>           |
|  | <u><u>\$ 861,752</u></u> |

**Note 12 - 401(k) Safe Harbor Plan**

The Organization offers a 401(k) Safe Harbor plan to their employees. The plan covers employees who complete 90 consecutive days of employment. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. The Organization will make matching contributions equal to 100% of each eligible participant's salary deferral contributions (including "catch-up contributions") that do not exceed 4% of compensation for the plan year. Employer retirement plan expense for the year ended December 31, 2020 was \$33,929.

**Note 13 - Subsequent event**

In July 2021, the Organization received notification from its lender that full forgiveness of the PPP loan balance was approved which will be recorded as a gain on forgiveness during the year ended December 31, 2021 (see Note 7).



## **Supplementary Information**

**New Directions, Inc. and Subsidiaries**  
**Consolidating Statement of Financial Position**  
**December 31, 2020**

|   | New Directions,<br>Inc. | New Directions<br>Housing, LLC | New Directions<br>West Adams,<br>LLC | Eliminating<br>entries | Total               |
|---|-------------------------|--------------------------------|--------------------------------------|------------------------|---------------------|
| <u>Assets</u>                               |                         |                                |                                      |                        |                     |
| Cash and cash equivalents                   | \$ 1,637,118            | \$ 124,961                     | \$ -                                 | \$ -                   | \$ 1,762,079        |
| Equity investment                           | (500,395)               | 356,395                        | 144,000                              | -                      | -                   |
| Contracts receivable, net                   | 458,057                 | -                              | -                                    | -                      | 458,057             |
| Other accounts receivable                   | 368,527                 | -                              | -                                    | -                      | 368,527             |
| Interfund receivable                        | -                       | 1,497,806                      | -                                    | (1,497,806)            | -                   |
| Prepaid and other assets                    | 111,666                 | -                              | -                                    | -                      | 111,666             |
| Property and equipment                      | 914,873                 | -                              | -                                    | -                      | 914,873             |
| Total assets                                | <u>\$ 2,989,846</u>     | <u>\$ 1,979,162</u>            | <u>\$ 144,000</u>                    | <u>\$ (1,497,806)</u>  | <u>\$ 3,615,202</u> |
| <u>Liabilities and Net Assets</u>           |                         |                                |                                      |                        |                     |
| Liabilities                                 |                         |                                |                                      |                        |                     |
| Accounts payable                            | \$ 151,668              | \$ -                           | \$ -                                 | \$ -                   | \$ 151,668          |
| Accrued liabilities                         | 338,305                 | -                              | -                                    | -                      | 338,305             |
| Interfund payable                           | 1,497,806               | -                              | -                                    | (1,497,806)            | -                   |
| Accountability for government-funded assets | 478,708                 | -                              | -                                    | -                      | 478,708             |
| PPP loan                                    | 899,600                 | -                              | -                                    | -                      | 899,600             |
| Total liabilities                           | <u>3,366,087</u>        | <u>-</u>                       | <u>-</u>                             | <u>(1,497,806)</u>     | <u>1,868,281</u>    |
| Net assets (deficit)                        |                         |                                |                                      |                        |                     |
| Without donor restrictions                  | (2,782,779)             | 1,979,162                      | 144,000                              | -                      | (659,617)           |
| With donor restrictions                     | <u>2,406,538</u>        | <u>-</u>                       | <u>-</u>                             | <u>-</u>               | <u>2,406,538</u>    |
| Total net assets                            | <u>(376,241)</u>        | <u>1,979,162</u>               | <u>144,000</u>                       | <u>-</u>               | <u>1,746,921</u>    |
| Total liabilities and net assets            | <u>\$ 2,989,846</u>     | <u>\$ 1,979,162</u>            | <u>\$ 144,000</u>                    | <u>\$ (1,497,806)</u>  | <u>\$ 3,615,202</u> |

See Independent Auditor's Report.

**New Directions, Inc. and Subsidiaries**

**Consolidating Statement of Activities  
Year Ended December 31, 2020**

|                                 | New Directions,<br>Inc. | New Directions<br>Housing, LLC | New Directions<br>West Adams,<br>LLC | Eliminating<br>entries | Total        |
|---------------------------------|-------------------------|--------------------------------|--------------------------------------|------------------------|--------------|
| Revenue and support             |                         |                                |                                      |                        |              |
| Fees for services               | \$ 3,691,921            | \$ -                           | \$ -                                 | \$ -                   | \$ 3,691,921 |
| Government contracts and grants | 1,011,866               | -                              | -                                    | -                      | 1,011,866    |
| Grants and contributions        | 746,209                 | -                              | -                                    | -                      | 746,209      |
| Program income                  | 861,752                 | -                              | -                                    | -                      | 861,752      |
| Developer fees                  | -                       | 305,702                        | -                                    | -                      | 305,702      |
| Rent income                     | 171,113                 | -                              | -                                    | -                      | 171,113      |
| In-kind contributions           | 92,800                  | -                              | -                                    | -                      | 92,800       |
| Special events revenue          | 92,182                  | -                              | -                                    | -                      | 92,182       |
| Other income                    | 34,000                  | -                              | -                                    | -                      | 34,000       |
| Total revenue and support       | 6,701,843               | 305,702                        | -                                    | -                      | 7,007,545    |
| Expenses                        |                         |                                |                                      |                        |              |
| Program services                | 5,716,286               | -                              | -                                    | -                      | 5,716,286    |
| Support services                | 1,063,119               | -                              | -                                    | -                      | 1,063,119    |
| Fundraising                     | 377,861                 | -                              | -                                    | -                      | 377,861      |
| Total expenses                  | 7,157,266               | -                              | -                                    | -                      | 7,157,266    |
| Change in net assets (deficit)  | (455,423)               | 305,702                        | -                                    | -                      | (149,721)    |
| Net assets, beginning of year   | 79,182                  | 1,673,460                      | 144,000                              | -                      | 1,896,642    |
| Net assets, end of year         | \$ (376,241)            | \$ 1,979,162                   | \$ 144,000                           | \$ -                   | \$ 1,746,921 |

See Independent Auditor's Report.

Independent Auditor's 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*

The Board of Directors  
New Directions, Inc.

We have audited 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, the financial statements of New Directions, Inc. and Subsidiaries (a nonprofit organization) (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated November 29, 2022. The subsidiaries of New Directions, Inc. were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the subsidiaries of New Directions, Inc.

#### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal control") as a basis for designing audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from 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 financial statements. 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*.

#### Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*CohnReznick LLP*

Los Angeles, California  
November 29, 2022



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