

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

**COMBINED FINANCIAL STATEMENTS,
SUPPLEMENTAL SCHEDULE AND STATEMENTS,
and
ADDITIONAL INFORMATION**

DECEMBER 31, 2015

CONTENTS

Independent Auditors' Report	1-2
Combined Statement of Financial Position	3
Combined Statement of Activities	4
Combined Statement of Functional Expenses	5
Combined Statement of Cash Flows	6
Notes to Combined Financial Statements	7-16
Supplemental Schedule and Statements:	
Schedule of Expenditures of Federal Awards	17
Combining Statement of Financial Position	18
Combining Statement of Activities	19
Additional Information:	
Independent Auditors' 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>	20
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	21-22
Schedule of Findings and Questioned Costs	23

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
New Directions, Inc.
and New Directions Housing, LLC

Report on the Financial Statements

We have audited the accompanying combined financial statements of New Directions, Inc. and New Directions Housing, LLC (California nonprofit corporations), which comprise the Combined Statement of Financial Position as of December 31, 2015, and the related Combined Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entities' preparation and fair presentation of the combined 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 entities' 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 combined 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 combined financial statements referred to above present fairly, in all material respects, the financial position of New Directions, Inc. and New Directions Housing, LLC as of December 31, 2015, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT

continued

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The Combining Statement of Financial Position and Combining Statement of Activities are presented for purposes of additional analysis and are not a required part of the basic combined financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), respectively, is presented for purposes of additional analysis and is not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

Summarized Comparative Information

We have previously audited New Directions, Inc. and New Directions Housing, LLC's 2014 combined financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated April 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 12, 2016 on our consideration of New Directions, Inc. and New Directions Housing, LLC's internal control over financial reporting and on our tests of their 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Directions, Inc. and New Directions Housing, LLC's internal control over financial reporting and compliance.

Harrington Group

Pasadena, California
July 12, 2016

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2015

With comparative totals at December 31, 2014

	2015	2014
ASSETS		
Cash and cash equivalents	\$ 1,205,887	\$ 1,242,549
Contracts receivable (Note 2)	1,114,652	1,059,457
Pledges receivable (Note 3)	278,500	238,785
Other accounts receivable	191,191	101,423
Prepaid and other assets	89,936	149,525
Property and equipment (Note 4)	2,076,771	2,298,260
TOTAL ASSETS	\$ 4,956,937	\$ 5,089,999
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 260,962	\$ 54,448
Accrued liabilities (Note 5)	320,405	525,221
Accountability for government-funded assets (Note 4)	478,708	438,267
TOTAL LIABILITIES	1,060,075	1,017,936
NET ASSETS		
Unrestricted	1,378,006	1,571,727
Temporarily restricted (Note 8)	368,856	350,336
Permanently restricted (Note 9)	2,150,000	2,150,000
TOTAL NET ASSETS	3,896,862	4,072,063
TOTAL LIABILITIES AND NET ASSETS	\$ 4,956,937	\$ 5,089,999

These accompanying notes are an integral part of these combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINED STATEMENT OF ACTIVITIES
For the year ended December 31, 2015
With comparative totals for the year ended December 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015</u>	<u>2014</u>
REVENUE AND SUPPORT					
Government contracts and grants (Note 10)	\$ 3,395,313	\$ -	\$ -	\$ 3,395,313	\$ 2,567,868
Fees for services (Note 10)	2,693,398			2,693,398	2,313,314
Grants and contributions	1,086,009	385,000		1,471,009	987,425
Special events revenue, net of \$220,718	142,831			142,831	273,361
Other income	7,465			7,465	198,467
Business income (Note 11)	556,450			556,450	245,402
In-kind contributions (Note 2)				-	59,049
Rental income				-	6,129
(Loss)/gain on sale of fixed assets	(828)			(828)	425
Net assets released from purpose restrictions	366,480	(366,480)		-	-
TOTAL REVENUE AND SUPPORT	<u>8,247,118</u>	<u>18,520</u>	<u>-</u>	<u>8,265,638</u>	<u>6,651,440</u>
EXPENSES					
Program services	6,742,907			6,742,907	6,103,577
Support services	933,254			933,254	1,078,023
Fundraising	764,678			764,678	831,231
TOTAL EXPENSES	<u>8,440,839</u>	<u>-</u>	<u>-</u>	<u>8,440,839</u>	<u>8,012,831</u>
CHANGE IN NET ASSETS	(193,721)	18,520		(175,201)	(1,361,391)
NET ASSETS, BEGINNING OF YEAR	<u>1,571,727</u>	<u>350,336</u>	<u>2,150,000</u>	<u>4,072,063</u>	<u>5,433,454</u>
NET ASSETS, END OF YEAR	<u>\$ 1,378,006</u>	<u>\$ 368,856</u>	<u>\$ 2,150,000</u>	<u>\$ 3,896,862</u>	<u>\$ 4,072,063</u>

These accompanying notes are an integral part of these combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2015
With comparative totals for the year ended December 31, 2014

	<u>Program Services</u>	<u>Support Services</u>	<u>Fundraising</u>	<u>Total Expenses</u>	
				2015	2014
Salaries and related expenses					
Salaries	\$ 3,464,821	\$ 494,841	\$ 369,789	\$ 4,329,451	\$ 4,062,868
Employee benefits and payroll taxes	972,028	135,135	76,986	1,184,149	1,110,599
Total personnel costs	4,436,849	629,976	446,775	5,513,600	5,173,467
Other expenses					
Advertising and public relations	30,271	10,682	14,335	55,288	30,558
Auto expense	59,963	151		60,114	50,856
Bad debt	13,662	8,106		21,768	20,860
Conferences and education	17,298	20,736	981	39,015	34,896
Drug testing	54,788			54,788	57,514
Dues and subscriptions	1,032	8,440	10,035	19,507	16,863
Equipment rental and maintenance	25,499	2,390	1,221	29,110	36,375
Food costs	229,027	2,574	465	232,066	230,392
In-kind supplies			283	283	29,000
Insurance	72,528	23,788	404	96,720	59,371
Legal and audit	8,535	37,936		46,471	90,902
Licenses and fees	10,750	2,691	1,917	15,358	17,816
Miscellaneous expenses	48,427	29,626	13,305	91,358	74,691
Office expenses	166,090	15,987	4,225	186,302	183,204
Other resident expenses	578,940	7,148		586,088	657,847
Outside professional services	265,191	92,902	215,328	573,421	402,293
Postage and delivery	1,031	3,412	8,549	12,992	19,791
Printing	780		29,578	30,358	32,360
Repairs and maintenance	190,883	740		191,623	186,736
Rent	6,058	3,095		9,153	-
Small equipment	15,232			15,232	3,524
Supplies	58,038	8,753	4,683	71,474	117,561
Property tax	1,745			1,745	-
Telephone	55,352	15,491	10,054	80,897	69,247
Transportation and parking	20,327	1,619	113	22,059	19,899
Travel	25,830	7,011	2,427	35,268	22,305
Utilities	40,163			40,163	33,603
Vocational expenses	47,518			47,518	86,931
Depreciation	261,100			261,100	253,969
TOTAL 2015 FUNCTIONAL EXPENSES	<u>\$ 6,742,907</u>	<u>\$ 933,254</u>	<u>\$ 764,678</u>	<u>\$ 8,440,839</u>	
TOTAL 2014 FUNCTIONAL EXPENSES	<u>\$ 6,103,577</u>	<u>\$ 1,078,023</u>	<u>\$ 831,231</u>		<u>\$ 8,012,831</u>

These accompanying notes are an integral part of these combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINED STATEMENT OF CASH FLOWS
For the year ended December 31, 2015
With comparative totals for the year ended December 31, 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (175,201)	\$ (1,361,391)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Donated vehicle	-	(30,049)
Depreciation	261,100	253,969
Loss/(gain) on sale of fixed assets	828	(425)
(Increase) decrease in operating assets:		
Contracts receivable	(55,195)	515,632
Pledges receivable	(39,715)	137,965
Other accounts receivable	(89,768)	(96,991)
Cash surrender value of life insurance	-	276,294
Prepaid and other assets	59,589	18,362
Increase (decrease) in operating liabilities:		
Accounts payable	206,514	(48,826)
Accrued liabilities	(204,816)	120,546
Deferred compensation payable	-	(201,940)
Allowance for contract settlement	-	(191,254)
Accountability for government-funded assets	40,441	18,095
	3,777	(590,013)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(40,439)	(6,194)
Proceeds from sale of fixed asset	-	425
Redemption of certificate of deposit	-	-
	(40,439)	(5,769)
NET CASH (USED) BY INVESTING ACTIVITIES		
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(36,662)	(595,782)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,242,549	1,838,331
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,205,887	\$ 1,242,549
NON-CASH INVESTING ACTIVITY:		
Donated vehicle	\$ -	\$ 30,049

These accompanying notes are an integral part of these combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Organization

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.

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 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, a California limited liability company, established in 2005 to focus on housing needs for veterans. A combined total of 260 units of permanent supportive housing for formerly homeless veterans, were in operation in 2016. Case management services are provided onsite to veterans at its permanent supportive housing units.

2. Summary of Significant Accounting Policies

A summary of the significant accounting policies applied in the preparation of the accompanying combined financial statements is as follows:

Principles of Combination

The accompanying combined financial statements include the combined accounts and transactions of New Directions, Inc. and New Directions Housing, LLC. New Directions, Inc. and New Directions Housing, LLC have elected to present combined financial statements. Each entity is a separate corporate entity with its own governing board, and as such, is responsible for and maintains custody of, its own financial resources. Accordingly, all inter-organization transactions have been eliminated.

Basis of Presentation

The accompanying combined financial statements have been prepared on the accrual basis of accounting.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

2. **Summary of Significant Accounting Policies**, continued

Accounting

To ensure observance of certain constraints and restrictions placed on the use of resources, the accounts of New Directions, Inc. and New Directions Housing, LLC are maintained in accordance with the principles of net asset accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into net asset classes that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded and reported by net asset class as follows:

Unrestricted. These generally result from revenue generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions, and performing administrative functions.

Temporarily Restricted. New Directions, Inc. and New Directions Housing, LLC reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Combined Statement of Activities as net assets released from program, capital, or time restrictions.

Permanently Restricted. These net assets are restricted by donors who stipulate that resources are to be maintained permanently, but permit New Directions, Inc. and New Directions Housing, LLC to expend all of the income (or other economic benefits) derived from the donated assets.

Cash and Cash Equivalents

Cash and cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Contracts Receivable

Contracts receivable are receivables from governmental agencies. Contract receivables are primarily unsecured amounts due on cost reimbursement or performance contracts. These amounts are deemed fully collectible as they primarily related to contracted services. Therefore, no allowance for doubtful accounts has been provided.

Contributions and Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as 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.

Fair Value Measurements

Generally accepted accounting principles provide guidance on how fair value should be determined when financial statement elements are required to be measured at fair value. Valuation techniques are ranked in three levels depending on the degree of objectivity of the inputs used with each level:

Level 1 inputs - quoted prices in active markets for identical assets

Level 2 inputs - quoted prices in active or inactive markets for the same or similar assets

Level 3 inputs - estimates using the best information available when there is little or no market

New Directions, Inc. and New Directions Housing, LLC are required to measure pledged contributions at fair value. The specific techniques used to measure fair value for these financial statement elements are described in the notes below that relate to each element.

Concentration of Credit Risks

New Directions, Inc. and New Directions Housing, LLC place 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. New Directions, Inc. and New Directions Housing, LLC have not incurred losses related to these investments.

The contracts receivable balance outstanding at December 31, 2015 consists of government contracts receivables due from county, state, and federal granting agencies. 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.

continued

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Approximately 74% of total revenue and support generated by New Directions, Inc. and New Directions Housing, LLC for the year ended December 31, 2015 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. 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 five thousand dollars and the useful life is greater than one year.

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. There were no donated materials or services for the year ended December 31, 2015.

Income Taxes

New Directions, Inc. and New Directions Housing, LLC are exempt from taxation under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d.

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 New Directions, Inc. and New Directions Housing, LLC in their federal and state exempt organization tax returns are more likely than not to be sustained upon examination. New Directions, Inc. and New Directions Housing, LLC's returns are subject to examination by federal and state taxing authorities, generally for three and four years, respectively, after they are filed.

Functional Allocation of Expenses

Cost of providing New Directions, Inc. and New Directions Housing, LLC's programs and other activities have been presented in the Combined 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 and support services by a method that best measures the relative degree of benefit. New Directions, Inc. and New Directions Housing, LLC use direct salary dollars expense to allocate indirect costs.

continued

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Use of Estimates

The preparation of combined 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.

Comparative Totals

The combined financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with New Directions, Inc. and New Directions Housing, LLC combined financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Reclassification

For comparability, certain December 31, 2014 amounts have been reclassified, where appropriate, to conform to the combined financial statement presentation used at December 31, 2015.

Subsequent Events

Management has evaluated subsequent events through July 12, 2016, the date which the financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the financial statements.

3. Pledges Receivable

Pledges receivable are recorded as support when pledged unless designated otherwise. All pledges are valued at their estimated fair value at December 31, 2015 and are deemed fully collectible. Therefore, no allowance for pledges receivable has been recorded. Pledges receivable at December 31, 2015, of \$278,500, is expected to be collected within one year.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

4. Property and Equipment

Property and equipment at December 31, 2015 consist of the following:

Land	\$ 337,186
Buildings and improvements	5,603,203
Furniture and equipments	761,944
Vehicles	<u>274,646</u>
	6,976,979
Less: accumulated depreciation	<u>(4,900,208)</u>
	<u>\$ 2,076,771</u>

Depreciation expense for the year ended December 31, 2015 was \$261,100.

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 New Directions, Inc. 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, 2015 was \$478,708. A corresponding liability is recorded for these government-funded assets at December 31, 2015. These accounts change with the purchase of assets with government funds.

5. Accrued Liabilities

Accrued liabilities at December 31, 2015 consist of the following:

Accrued vacation	\$169,335
Other accrued liabilities	92,938
Accrued payroll	48,055
Participant savings accounts	<u>10,077</u>
	<u>\$320,405</u>

6. Line of Credit

New Directions, Inc. has a revolving line of credit in the amount of \$150,000. The line of credit has an interest rate of 3.5% at December 31, 2015 with a maturity date of February 2016. New Directions, Inc. has no outstanding amount on the line of credit at December 31, 2015. New Directions, Inc. is in the process of renewing their line of credit.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

7. Commitments and Contingencies

Obligations Under Operating Leases

New Directions, Inc. is obligated under an operating lease, expiring August 2045, with the Department of Veterans Affairs 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 \$18,139 for the year ended December 31, 2015.

New Directions, Inc. and New Directions Housing, LLC lease facilities and equipment under operating leases with various terms. Future minimum payments, by year and in the aggregate, under these leases with initial or remaining terms of one year or more, consist of the following:

<u>Year ended December 31,</u>	
2016	\$30,532
2017	27,900
2018	<u>2,726</u>
	<u>\$61,158</u>

Rent and lease expense under operating leases for the year ended December 31, 2015 was \$34,372.

Contracts

New Directions, Inc. and New Directions Housing, LLC'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. In prior years, New Directions, Inc. had set up a reserve to account for certain costs reported under certain grants and contracts from governmental sources that were subject to disallowances upon final audit by such funding agencies. With regard to its current contract and grants, New Directions, Inc. and New Directions Housing, LLC believe the ultimate liability, if any, which may result from these governmental audits often cannot be reasonably estimated and, accordingly New Directions, Inc. and New Directions Housing, LLC have no current provision for the possible disallowance of program costs on their combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

7. Commitments and Contingencies, continued

Contingencies

New Directions, Inc. 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.

For the year ended December 31, 2015, the U.S. Department of Veterans Affairs-West Los Angeles or VA did not provide any funds nor grants for any acquisition or renovation of any transitional housing facilities maintained by New Directions, Inc.

8. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2015 consist of the following:

Building Improvements	\$142,217
Women's Program	119,812
Mental Health Service	50,000
Vocational Services Program	46,827
Photo Workshop	<u>10,000</u>
	<u>\$368,856</u>

For the year ended December 31, 2015, net assets of \$358,697 were released from program restrictions and \$7,783 were released from capital restrictions.

9. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2015 consist of funding from the City of Los Angeles (\$1,750,000) and the City of Santa Monica (\$400,000). 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 funding agreements, the buildings to which the funding is associated must be used in perpetuity for the delivery of services. Accordingly, the total amount of \$2,150,000 is classified as permanently restricted net assets.

**NEW DIRECTIONS, INC.
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NOTES TO COMBINED FINANCIAL STATEMENTS

10. Government Contracts and Fees for Service

Government contracts and fees for service for the year ended December 31, 2015 consist of the following:

Supportive Services for Veterans Families	\$2,075,982
Supportive Housing Program	652,078
Homeless Veterans Reintegration Project	283,690
Los Angeles Housing Services Authority Continuum of Care	241,280
Other grants and contracts	<u>142,283</u>
Government contracts	<u>\$3,395,313</u>
VA Grant Per Diem 116	\$1,390,779
VA Grant Per Diem 257	726,303
VA Grant Per Diem Women	135,115
VA Grant Per Diem Welcome Center	112,396
VA Grant Per Diem Homeless Provider	94,871
Department of Mental Health contract 840	61,758
Department of Mental Health contract 842 and 843	<u>172,176</u>
Fees for service	<u>\$2,693,398</u>

11. Business Income

Business income for the year ended December 31, 2015 consists of the following:

Reimbursements - housing partners permanent supportive services case management:	
New Directions, Inc.	\$541,163
New Directions Housing, LLC	1,423
Miscellaneous income	9,795
Location shoot	<u>4,025</u>
	<u>\$556,406</u>

continued

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

NOTES TO COMBINED FINANCIAL STATEMENTS

12. Fair Value Measurements

The table below presents the transactions measured at fair value on a non-recurring basis during the year ended December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions (current year)	\$ -	\$ -	\$278,000	\$278,000

The fair value of current year pledged contributions is measured on a non-recurring basis using the value provided by the donor at the date of the pledge and based on likelihood of collection (Level 3 inputs).

13. Profit Sharing Retirement Plan

New Directions, Inc. and New Directions Housing, LLC offer a section 401k plan for their employees. The plan covers employees who complete 6 months of service and are credited with 32 or more hours of service per week. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. New Directions, Inc. and New Directions Housing, LLC may make matching contributions determined annually. There were no other discretionary contributions made by New Directions, Inc. and New Directions Housing, LLC. Employer contributions to the plan were \$71,036 for the year ended December 31, 2015.

14. Related Party Transactions

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 placed into service in 2015.

The two entities, New Directions, Inc. and New Directions Housing, LLC, share certain common Management and Board of Directors members. Transactions between the two entities occur throughout the year. Furthermore, New Directions Housing, LLC has a separate set of books.

SUPPLEMENTAL SCHEDULE AND STATEMENTS

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2015

Program Name	Program Number	Federal CFDA No.	Contract Number	Contract Term	Program Award	Program Expenditure
Federal Awards						
U.S. Department of Veterans Affairs						
Veterans Health Administration						
VA Homeless Providers Grant and Per Diem Program (Direct)						
Department of Veteran's Affairs - Central Office	601	64.024	95-37-CA	4/1/14 - 3/31/15	Per Diem	\$ 347,383
Department of Veteran's Affairs - Central Office	601	64.024	95-37-CA	4/1/15 - 3/31/16	Per Diem	1,043,396
Department of Veteran's Affairs - Women	605	64.024	02-216-CA	4/1/14 - 3/31/15	Per Diem	31,827
Department of Veteran's Affairs - Women	605	64.024	02-216-CA	4/1/15 - 3/31/16	Per Diem	103,288
Department of Veteran's Affairs - New Directions North	829	64.024	02-215-CA	4/1/14 - 3/31/15	Per Diem	176,139
Department of Veteran's Affairs - New Directions North	829	64.024	02-215-CA	4/1/15 - 3/31/16	Per Diem	550,164
Department of Veteran's Affairs - HCHV Building	612	64.024	VA262-15-D-0215	9/28/15 - 9/27/16	Per Diem	112,396
Department of Veteran's Affairs - Homeless Provider Grant	602	64.024	95-37-CA	4/1/15 - 3/31/16	Per Diem	94,871
Subtotal VA Homeless Providers Grant and Per Diem Program					-	<u>2,459,464</u>
Supportive Services for Veteran Families (Direct) (a)	191	64.033	12-CA-007	10/1/14 - 9/30/15	1,169,335	753,536
Supportive Services for Veteran Families (Direct) (a)	191	64.033	14-CA-007	10/1/15 - 9/30/16	1,169,335	220,607
Supportive Services for Veteran Families (Direct) (a)	196	64.033	15-CA-600B	04/1/15 - 3/31/16	1,169,335	1,101,839
Subtotal Supportive Services for Veteran Families					3,508,005	<u>2,075,982</u>
Total U.S. Department of Veterans Affairs					<u>3,508,005</u>	<u>4,535,446</u>
U.S. Department of Housing and Urban Development						
Community Planning and Development						
Supportive Housing Program (SHP)						
Special Needs Assistance Program - SHP (Direct)	204	14.235	CA0453L9D001306	5/1/14 - 4/30/15	214,432	214,432
Special Needs Assistance Program - SHP (Direct)	204	14.235	CA0453L9D001407	5/1/15 - 4/30/16	393,041	393,041
Pass-through, Los Angeles Services Authority - SHP	402	14.235	CA0454L9D001306	8/1/14 - 7/31/15	97,254	97,254
Pass-through, Los Angeles Services Authority - SHP	402	14.235	CA0454L9D001407	8/1/15 - 7/31/16	52,383	52,383
Pass-through, Los Angeles Services Authority - SHP	303	14.235	CA0342L9D001306	7/1/14 - 6/30/15	60,255	60,255
Pass-through, Los Angeles Services Authority - SHP	303	14.235	CA0342L9D001407	7/1/15 - 6/30/16	31,388	31,388
Pass-through, City of Santa Monica - SHP	220	14.235	CCS-10037	11/1/14 - 10/31/15	44,605	22,154
Pass-through, City of Santa Monica - SHP	220	14.235	CCS-10037	11/1/15 - 10/31/16	44,605	22,451
Total Supportive Housing Program					937,963	<u>893,358</u>
Pass-through, Enterprise Community Partners, Inc.	083	14.235	B-14-CB-MID-0001	8/1/2015-7/31/2016	75,000	19,927
Total U.S. Department of Housing and Urban Development					<u>1,012,963</u>	<u>913,285</u>
U.S. Department of Labor						
Office of the Assistant Secretary for Veterans' Employment and Training						
Homeless Veterans Reintegration Project (HVRP)						
Pass-through, Los Angeles County - HVRP	432	17.805	HV-23297-12-60-5-6	7/1/14 - 6/30/15	300,000	158,056
Pass-through, Los Angeles County - HVRP	432	17.805	HV-23297-12-60-5-6	7/1/15 - 6/30/16	300,000	125,634
Total U.S. Department of Labor					<u>600,000</u>	<u>283,690</u>
Total Federal Awards					<u>\$ 5,120,968</u>	<u>\$ 5,732,421</u>
Payments to Subrecipients						
U.S. Department of Veterans Affairs						
Veterans Health Administration						
Supportive Services for Veteran Families (Direct)						
Ocean Park Community Center	191	64.033	12-CA-007, 14-CA-007	10/1/14 - 9/30/15, 10/1/14-9/30/16	\$ 165,000	\$ 27,013
St. Joseph Center	191	64.033	12-CA-007, 14-CA-007	10/1/14 - 9/30/15, 10/1/14-9/30/16	660,000	90,933
Step Up On Second	191	64.033	12-CA-007, 14-CA-007	10/1/14 - 9/30/15, 10/1/14-9/30/16	453,750	94,803
					<u>\$ 1,278,750</u>	<u>\$ 212,749</u>

(a) Audited as a major program

Summary of Significant Accounting Policies

1. Basis of Accounting - The Schedule of Expenditures of Federal Awards has been reported on the accrual basis of accounting.
2. New Directions, Inc. and New Directions Housing, LLC are exempt from income taxation under Internal Revenue Code Section 501(c)(3) and California Revenue Taxation Code Section 23701d.

See independent auditors' report.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINING STATEMENT OF FINANCIAL POSITION
December 31, 2015

	New Directions, Inc.	New Directions Housing, LLC	Eliminating Entries	Total
ASSETS				
Cash and cash equivalents	\$ 987,084	\$ 218,803	\$ -	\$ 1,205,887
Contracts receivable (Note 2)	972,254	142,398		1,114,652
Pledges receivable (Note 3)	278,500			278,500
Other accounts receivable	191,191			191,191
Interfund receivable		769,768	(769,768)	-
Prepaid and other assets	89,936			89,936
Property and equipment (Note 5)	2,076,771			2,076,771
TOTAL ASSETS	\$ 4,595,736	\$ 1,130,969	\$ (769,768)	\$ 4,956,937
LIABILITIES AND NET ASSETS				
LIABILITIES				
Accounts payable	\$ 260,962	\$ -	\$ -	\$ 260,962
Accrued liabilities (Note 6)	320,405			320,405
Interfund payable	769,768		(769,768)	-
Accountability for government-funded assets (Note 5)	478,708			478,708
TOTAL LIABILITIES	1,829,843	-	(769,768)	1,060,075
NET ASSETS				
Unrestricted	265,557	1,130,969		1,396,526
Temporarily restricted (Note 8)	350,336			350,336
Permanently restricted (Note 9)	2,150,000			2,150,000
TOTAL NET ASSETS	2,765,893	1,130,969	-	3,896,862
TOTAL LIABILITIES AND NET ASSETS	\$ 4,595,736	\$ 1,130,969	\$ (769,768)	\$ 4,956,937

These accompanying notes are an integral part of these combined financial statements.

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)**

COMBINING STATEMENT OF ACTIVITIES
For the year ended December 31, 2015

	New Directions, Inc.	New Directions Housing, LLC	Eliminating Entries	2015
REVENUE AND SUPPORT				
Government contracts and grants (Note 10)	\$ 3,395,313	\$ -	\$ -	\$ 3,395,313
Fees for services (Note 10)	2,693,398			2,693,398
Grants and contributions	1,471,009			1,471,009
Special events revenue, net of \$220,718	142,831			142,831
Other income	7,441	24		7,465
Business income (Note 11)	555,027	1,423		556,450
In-kind contributions (Note 2)				-
Rental income				-
Loss on sale of fixed asset	(828)			(828)
TOTAL REVENUE AND SUPPORT	8,264,191	1,447	-	8,265,638
EXPENSES				
Program services	6,742,907			6,742,907
Support services	933,248	6		933,254
Fundraising	764,678			764,678
TOTAL EXPENSES	8,440,833	6	-	8,440,839
CHANGE IN NET ASSETS	(176,642)	1,441	-	(175,201)
NET ASSETS, BEGINNING OF YEAR	2,942,535	1,129,528	-	4,072,063
NET ASSETS, END OF YEAR	\$ 2,765,893	\$ 1,130,969	\$ -	\$ 3,896,862

These accompanying notes are an integral part of these combined financial statements.

ADDITIONAL INFORMATION

**Independent Auditors' 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***

To the Board of Directors
New Directions, Inc.
and New Directions Housing, LLC

We have audited, in accordance with the 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 New Directions Housing, LLC, which comprise the Combined Statement of Financial Position as of December 31, 2015, and the related Combined Statements of Activities, Functional Expenses, and Cash Flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated July 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered New Directions, Inc. and New Directions Housing, LLC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Directions, Inc. and New Directions Housing, LLC's internal control. Accordingly, we do not express an opinion on the effectiveness of New Directions, Inc. and New Directions Housing, LLC'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 combined 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Directions, Inc. and New Directions Housing, LLC's combined 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 determination of combined 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*.

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 New Directions, Inc. and New Direction Housing, LLC's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering New Directions, Inc. and New Direction Housing, LLC's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harrington Group

Pasadena, California
July 12, 2016

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

To the Board of Directors
New Directions, Inc.
and New Directions Housing, LLC

Report on Compliance for Each Major Federal Program

We have audited New Directions, Inc. and New Directions Housing, LLC's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of New Directions, Inc. and New Directions Housing, LLC's major federal programs for the year ended December 31, 2015. New Directions, Inc. and New Directions Housing, LLC's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of New Directions, Inc. and New Directions Housing, LLC's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Directions, Inc. and New Directions Housing, LLC'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 on compliance for each major federal program. However, our audit does not provide a legal determination of New Directions, Inc. and New Directions Housing, LLC's compliance.

Opinion on Each Major Federal Program

In our opinion, New Directions, Inc. and New Directions Housing, LLC complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Report on Internal Control Over Compliance

Management of New Directions, Inc. and New Directions Housing, LLC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirement referred to above. In planning and performing our audit of compliance, we considered New Directions, Inc. and New Directions Housing, LLC's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Directions, Inc. and New Directions Housing, LLC's internal control over compliance.

**Independent Auditors' Report on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**
continued

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Harrington Group

Pasadena, California
July 12, 2016

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
(California Nonprofit Corporations)
Schedule of Findings and Questioned Costs
For the year ended December 31, 2015**

Section I – Summary of Auditors’ Results

Combined Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Noncompliance material to combined financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiencies identified? None reported

Type of auditors’ report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 of the Uniform Guidance? No

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Identification of Major Programs:

U.S. Department of Veterans Affairs:

Supportive Services for Veteran Families 64.033

Section II – Financial Statements Findings

There are no findings required to be reported in accordance with *Generally Accepted Government Auditing Standards*.

Section III – Federal Award Findings and Questioned Costs

There are neither findings nor questioned costs for Federal awards as defined in the Uniform Guidance.

Section IV – Summary of Prior Year Findings

None.