

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

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

DECEMBER 31, 2016

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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, which comprise the Combined Statement of Financial Position as of December 31, 2016, 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, 2016, 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 2015 combined financial statements, and we expressed an unmodified audit opinion on those audited combined financial statements in our report dated July 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 September 1, 2017, 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
September 1, 2017

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

COMBINED STATEMENT OF FINANCIAL POSITION

December 31, 2016

With comparative totals at December 31, 2015

	2016	2015
ASSETS		
Cash	\$ 1,890,707	\$ 1,205,887
Contracts receivable, net of allowance of \$35,138 (Note 3)	845,717	1,114,652
Pledges receivable (Note 4)	390,718	278,500
Other accounts receivable	222,913	191,191
Prepaid and other assets	90,519	89,936
Property and equipment (Note 5)	1,841,104	2,076,771
TOTAL ASSETS	\$ 5,281,678	\$ 4,956,937
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 211,484	\$ 260,962
Accrued liabilities (Note 6)	528,010	320,405
Accountability for government-funded assets (Note 5)	478,708	478,708
TOTAL LIABILITIES	1,218,202	1,060,075
NET ASSETS		
Unrestricted	1,366,400	1,378,006
Temporarily restricted (Note 9)	547,076	368,856
Permanently restricted (Note 10)	2,150,000	2,150,000
TOTAL NET ASSETS	4,063,476	3,896,862
TOTAL LIABILITIES AND NET ASSETS	\$ 5,281,678	\$ 4,956,937

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

**NEW DIRECTIONS, INC.
AND NEW DIRECTIONS HOUSING, LLC
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COMBINED STATEMENT OF ACTIVITIES
For the year ended December 31, 2016
With comparative totals for the year ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016	2015
REVENUE AND SUPPORT					
Government contracts and grants (Note 11)	\$ 4,334,516	\$ -	\$ -	\$ 4,334,516	\$ 3,395,313
Fees for services (Note 11)	3,383,780			3,383,780	2,693,398
Grants and contributions	1,029,242	435,000		1,464,242	1,471,009
Program income (Note 12)	499,440			499,440	556,450
Special events revenue, net of \$225,607	312,082			312,082	142,831
In-kind contributions (Note 2)	241,631			241,631	-
Other income	31,201			31,201	7,465
(Loss) on sale of fixed assets				-	(828)
Net assets released from purpose restrictions	256,780	(256,780)		-	-
TOTAL REVENUE AND SUPPORT	10,088,672	178,220	-	10,266,892	8,265,638
EXPENSES					
Program services	8,081,703			8,081,703	6,742,907
Support services	1,380,790			1,380,790	933,254
Fundraising	637,785			637,785	764,678
TOTAL EXPENSES	10,100,278	-	-	10,100,278	8,440,839
CHANGE IN NET ASSETS	(11,606)	178,220	-	166,614	(175,201)
NET ASSETS, BEGINNING OF YEAR	1,378,006	368,856	2,150,000	3,896,862	4,072,063
NET ASSETS, END OF YEAR	\$ 1,366,400	\$ 547,076	\$ 2,150,000	\$ 4,063,476	\$ 3,896,862

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

**NEW DIRECTIONS, INC.
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COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the year ended December 31, 2016
With comparative totals for the year ended December 31, 2015

	Program	Support	Fundraising	Total Expenses	
	Services	Services		2016	2015
SALARIES AND RELATED EXPENSES					
Salaries	\$ 3,643,728	\$ 688,416	\$ 221,834	\$ 4,553,978	\$ 4,329,451
Employee benefits and payroll taxes	991,813	199,641	36,901	1,228,355	1,184,149
Total personnel costs	4,635,541	888,057	258,735	5,782,333	5,513,600
OTHER EXPENSES					
Advertising and public relations	11,131	7,037	28,748	46,916	55,288
Auto expense	51,914	9,161		61,075	60,114
Bad debt	35,138			35,138	-
Bank charges	10,702	1,889		12,591	21,768
Conferences and education	20,552	3,698	400	24,650	39,015
Depreciation	261,317			261,317	261,100
Drug testing	13,032			13,032	54,788
Dues and subscriptions	8,158	3,200	9,975	21,333	19,507
Equipment rental and maintenance	22,746	5,979	11,132	39,857	29,110
Food costs	241,754	3,550	544	245,848	232,066
In-kind supplies	132,182	4,501		136,683	283
In-kind services	29,998	74,950		104,948	-
Insurance	87,113	15,408	202	102,723	96,720
Legal and audit	151,140	131,140		282,280	46,471
Licenses and fees	26,082	4,603		30,685	15,358
Miscellaneous expenses	69,459	14,186	10,930	94,575	91,358
Office expenses	19,604	3,507	268	23,379	186,302
Other resident expenses	1,216,592	8,150		1,224,742	586,088
Outside professional services	286,740	93,428	242,684	622,852	573,421
Postage and delivery	3,559	1,521	5,057	10,137	12,992
Printing	1,017	5,546	30,413	36,976	30,358
Repairs and maintenance	262,470	34,554		297,024	191,623
Rent	21,898			21,898	9,153
Small equipment	16,368	2,889		19,257	15,232
Supplies	88,306	19,318	21,165	128,789	71,474
Property tax	31,004	5,472		36,476	1,745
Telephone	49,173	11,552	16,290	77,015	80,897
Transportation and parking	49,931	8,855	251	59,037	22,059
Travel	44,773	8,075	991	53,839	35,268
Utilities	59,862	10,564		70,426	40,163
Vocational expenses	122,447			122,447	47,518
TOTAL 2016 FUNCTIONAL EXPENSES	\$ 8,081,703	\$ 1,380,790	\$ 637,785	\$ 10,100,278	
TOTAL 2015 FUNCTIONAL EXPENSES	\$ 6,742,907	\$ 933,254	\$ 764,678		\$ 8,440,839

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

**NEW DIRECTIONS, INC.
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COMBINED STATEMENT OF CASH FLOWS
For the year ended December 31, 2016
With comparative totals for the year ended December 31, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 166,614	\$ (175,201)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	261,317	261,100
Loss on sale of fixed assets	-	828
(Increase) decrease in operating assets:		
Contracts receivable	268,935	(55,195)
Pledges receivable	(112,218)	(39,715)
Other accounts receivable	(31,722)	(89,768)
Prepaid and other assets	(583)	59,589
Increase (decrease) in operating liabilities:		
Accounts payable	(49,478)	206,514
Accrued liabilities	207,605	(204,816)
Accountability for government-funded assets	-	40,441
	710,470	3,777
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(25,650)	(40,439)
	(25,650)	(40,439)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	684,820	(36,662)
CASH, BEGINNING OF YEAR	1,205,887	1,242,549
CASH, END OF YEAR	\$ 1,890,707	\$ 1,205,887

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

**NEW DIRECTIONS, INC.
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(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.
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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.

Contracts Receivable

Contracts receivable are receivables primarily from governmental agencies. Contract 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 Housing, LLC from development partnership arrangements. Such receivables are recorded using the allowance method in order to reserve for potentially uncollectible contracts receivable.

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

2. Summary of Significant Accounting Policies, continued

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, 2016 consists of government contracts receivables due from county, state, and federal granting agencies, and receivables from housing development partnership arrangements.

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. Concentration of credit risks with respect to the housing development partnership arrangement receivables.

Approximately 75% of total revenue and support generated by New Directions, Inc. and New Directions Housing, LLC for the year ended December 31, 2016 was derived from government contracts and service fees.

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

2. Summary of Significant Accounting Policies, continued

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. New Directions, Inc. recorded in-kind contributions of \$241,631 for the year ended December 31, 2016, of which \$136,683 were donated materials and \$104,948 were donated materials.

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.

**NEW DIRECTIONS, INC.
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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, 2015, from which the summarized information was derived.

Subsequent Events

Management has evaluated subsequent events through September 1, 2017, the date which the combined financial statements were available for issue. No events or transactions have occurred during this period that appear to require recognition or disclosure in the combined financial statements.

3. Contracts Receivable

Contracts receivable at December 31, 2016 consist of the following:

Contracts receivable	\$880,855
Less: allowance for doubtful accounts	<u>(35,138)</u>
	<u>\$845,717</u>

Included in contracts receivable above are developer contract fee receivables of \$105,414 (net of the allowance of \$35,188). Given the nature of the developer contract agreements, these fees can be received years in arrears. Therefore, the receivable of \$105,414 is deemed to be a long-term receivable. This amount, however, has not been recorded at net present value as any discount is not deemed to be material to the financial statements.

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

4. 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, 2016 and are deemed fully collectible. Therefore, no allowance for pledges receivable has been recorded. Pledges receivable at December 31, 2016, of \$390,718, are expected to be collected within one year

5. Property and Equipment

Property and equipment at December 31, 2016 consist of the following:

Buildings and improvements	\$ 5,628,853
Furniture and equipment	761,944
Land	337,186
Vehicles	<u>274,646</u>
	7,002,629
Less: accumulated depreciation	<u>(5,161,525)</u>
	<u>\$ 1,841,104</u>

Depreciation expense for the year ended December 31, 2016 was \$261,317.

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, 2016 was \$478,708. A corresponding liability is recorded for these government-funded assets at December 31, 2016. These accounts change with the purchase of assets with government funds.

6. Accrued Liabilities

Accrued liabilities at December 31, 2016 consist of the following:

Accrued expenses	\$262,976
Accrued vacation	151,771
Accrued payroll	88,111
401(k) payable	<u>25,152</u>
	<u>\$528,010</u>

continued

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

7. 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 3.75% at December 31, 2016 with a maturity date in February, 2018. New Directions, Inc. has no outstanding amount on the line of credit at December 31, 2016.

8. 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 ("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, 2016.

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:

Year ended December 31,

2017	\$36,600
2018	<u>4,526</u>
	<u>\$41,126</u>

Rent and lease expense under operating leases for the year ended December 31, 2016 was \$54,178.

Contracts

New Directions, Inc.'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. New Directions, Inc. believes the ultimate liability, if any, which may result from these governmental audits often cannot be reasonably estimated and, accordingly New Directions, Inc. have no current provision for the possible disallowance of program costs on their combined financial statements.

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.

continued

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NOTES TO COMBINED FINANCIAL STATEMENTS

8. Commitments and Contingencies, continued

For the year ended December 31, 2016, 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 New Directions, Inc.

9. Temporarily Restricted Net Assets

Temporarily restricted net assets at December 31, 2016 consist of the following:

Vocational services program	\$282,500
Women's program	163,826
Mental health services	75,750
Repairs and maintenance	<u>25,000</u>
	<u>\$547,076</u>

For the year ended December 31, 2016, \$256,780 was released from restrictions, of which \$114,563 were released from program restrictions and \$142,217 were released from capital restrictions.

10. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2016 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.

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NOTES TO COMBINED FINANCIAL STATEMENTS

11. Government Contracts and Fees for Service

Government contracts and fees for service for the year ended December 31, 2016 consist of the following:

Supportive Services for Veterans Families	\$3,120,827
Other grants and contracts	325,117
Homeless Veterans Reintegration Project	319,436
Los Angeles Housing Services Authority Continuum of Care	227,488
Emergency Food and Shelter Program	201,591
Supportive Housing Program	<u>140,057</u>
Government contracts	<u>\$4,334,516</u>
VA Grant Per Diem 116	\$1,481,544
VA Grant Per Diem Welcome Center	1,030,503
VA Grant Per Diem 257	726,303
VA Grant Per Diem Women	115,794
Department of Mental Health contract 842 and 843 fees for service	<u>29,636</u> <u>\$3,383,780</u>

12. Program Income

Program income for the year ended December 31, 2016 consists of the following:

Housing partners - permanent supportive services and case management	\$478,339
Miscellaneous income	<u>21,101</u>
	<u>\$499,440</u>

13. Fair Value Measurements

The table below presents the transactions measured at fair value on a non-recurring basis during the year ended December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Pledged contributions (current year)	\$ -	\$ -	\$387,032	\$387,032
Donated materials and supplies		136,683		136,683
Donated services		<u>104,948</u>		<u>104,948</u>
Total	<u>\$ -</u>	<u>\$241,631</u>	<u>\$387,032</u>	<u>\$628,663</u>

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).

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

NOTES TO COMBINED FINANCIAL STATEMENTS

13. Fair Value Measurements, continued

The fair value of donated supplies and services is measured on a non-recurring basis using quoted prices for similar assets and services in an inactive market (Level 2 inputs).

14. 401(k) Safe Harbor Plan

New Directions, Inc. 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. New Directions, Inc. 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, 2016 was \$55,198.

15. 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. New Directions Housing, LLC has a separate set of books. New Directions, Inc. is the sole member of New Directions Housing, LLC.