

NEW DIRECTIONS HOUSING CORPORATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2010

HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
PROFESSIONAL LIMITED LIABILITY CORPORATION

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INDEPENDENT AUDITOR'S REPORT

New Directions Housing Corporation and Subsidiaries

To The Board of Directors
New Directions Housing Corporation and Subsidiaries
1000 E. Liberty Street
Louisville, Kentucky 40204

We have audited the accompanying Consolidated Statement of Financial Position of New Directions Housing Corporation, (a non-profit corporation) and subsidiaries as of June 30, 2010, and the related Consolidated Statements of Activities and Cash Flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated statement of financial position of New Directions Housing Corporation (a non-profit corporation) and Subsidiaries as of June 30, 2010, and the consolidated changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2010 on our consideration of New Directions Housing Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards (unconsolidated) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



HENSON & ASSOCIATES
Certified Public Accountants

Louisville, Kentucky

November 22, 2010

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2010

Assets

Cash		888,674.51
Cash - Restricted by Grant		125,995.10
Receivables		
Accounts Receivable, net	698,102.17	
Notes and Mortgages Receivable, net	1,389,093.82	
Unconditional Promises to Give	<u>158,909.60</u>	2,246,105.59
Prepaid Expenses		119,343.75
Construction in Progress		244,065.32
Other Assets		2,652,438.86
Property and Equipment		<u>17,649,578.02</u>
Total Assets		<u>23,926,201.15</u>

Liabilities

Accounts Payable		442,268.06
Accrued Expenses		412,829.63
Deferred Revenue		20,348.63
Short Term Debt		1,358,194.44
Deposits		114,393.00
Long Term Debt		<u>8,798,261.65</u>
Total Liabilities		11,146,295.41

Net Assets

Unrestricted		
Operating	10,671,438.26	
Contractually Designated	1,222,905.13	
Temporarily Restricted	170,603.35	
Permanently Restricted	<u>714,959.00</u>	<u>12,779,905.74</u>
Total Liabilities and Net Assets		<u>23,926,201.15</u>

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Revenues, Gains and Other Support				
Contributions	297,106.51	100,372.59		397,479.10
Rent Income	4,338,207.18			4,338,207.18
Grant Income - Operations	1,308,422.59	853,219.34	235,000.00	2,396,641.93
Maintenance, Management and Other Fees	963,211.30			963,211.30
Interest Income	117,246.29			117,246.29
Gain on Sale of Properties	1,317,371.31			1,317,371.31
Miscellaneous	511,781.57			511,781.57
Net Assets Released from Restriction	<u>1,284,371.19</u>	<u>(937,719.19)</u>	<u>(346,652.00)</u>	<u>10,041,938.68</u>
	10,137,717.94	15,872.74	(111,652.00)	
Expenses				
Program Expenses	7,921,464.14			7,921,464.14
Supporting Expenses				
Management and General	1,080,694.20			1,080,694.20
Fundraising	<u>15,815.35</u>			<u>15,815.35</u>
Total Expenses	<u>9,017,973.69</u>			<u>9,017,973.69</u>
Increase (Decrease) in Net Assets	1,119,744.25	15,872.74	(111,652.00)	1,023,964.00
Less: Distributions				(200.00)
Beginning Net Assets	<u>10,774,799.14</u>	<u>154,730.61</u>	<u>826,611.00</u>	<u>11,756,140.75</u>
Ending Net Assets	<u>11,894,343.39</u>	<u>170,603.35</u>	<u>714,959.00</u>	<u>12,779,905.74</u>

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

Cash Flows from Operating Activities:

Increase in Net Assets		1,023,964.99
Adjustments to Reconcile Increase in Net Assets to Net Cash Used by Operating Activities:		
Depreciation & Amortization	858,403.49	
Cash Restricted for Long-term Purposes	(38,022.98)	
Gain on Sale of Fixed Assets	(1,317,371.31)	
Non Cash Operating Items		
Allowance for Bad Debts	180,983.30	
Contribution of Partnership Interest	(253,500.00)	
Interest Deferred Added to Principal	92,149.48	
Lead Grant Forgivable Mortgage	(74,720.66)	
(Increase) Decrease Promises to Give	(6,156.43)	
(Increase) Decrease Accounts Receivable	(770,411.56)	
(Increase) Decrease Prepaid Expenses	5,296.06	
(Increase) Decrease Construction in Progress	(54,527.71)	
(Decrease) Increase Accounts Payable	329,979.41	
(Decrease) Increase Accrued Expenses	(426,940.55)	
(Decrease) Increase Deferred Revenue	(26,690.22)	
(Decrease) Increase Refundable Deposits	(2,861.49)	
Total Adjustments		<u>(1,504,391.17)</u>
Net Cash Used by Operating Activities		(480,426.18)

Cash Flows from Investing Activities:

Proceeds from Sale of Fixed Assets	657,244.00	
Organizational Costs	(36,244.89)	
Financing Fees	(8,868.85)	
Borrowings on Notes/Mortgage Receivable	(1,989.75)	
Repayment of Notes/Mortgage Receivable	7,249.68	
Neighborworks Funds Received	40,600.00	
Investment Activity - Partnerships/Corporations	(3,906.30)	
Capital Expenditures	(563,261.95)	
Security Deposit Refund/Payment	(3,335.32)	
Deposits into Reserves/Escrows	(798,481.09)	
Releases from Reserves/Escrows	<u>1,178,201.61</u>	
Net Cash Provided by Investing Activities		467,207.14

Cash Flows from Financing Activities:

Distribution to Owners - For Profit Partnerships	(200.00)	
Borrowings on Notes & Mortgages	925,621.23	
Repayments of Notes & Mortgages	<u>(924,028.60)</u>	
Net Cash Provided by Financing Activities		<u>1,392.63</u>

Net Decrease in Cash (11,826.41)

Cash at Beginning of Year 900,500.92

Cash at End of Year 888,674.51

Supplementary Cash Flow Disclosure

Cash Interest Paid 970,662.72

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE I: Significant Accounting Policies

A. Nature of Activities

New Directions Housing Corporation was organized as a non-profit entity as prescribed under Internal Revenue Code Section 501(c)(3), and is exempt from federal and state income taxes as other than a private foundation.

New Directions Housing Corporation is involved in the following activities all of which are located in the Louisville, Kentucky metropolitan area, which includes Floyd and Clark counties in Southern Indiana.

- A) Building and developing multi-family housing communities for low and moderate income families.
- B) Management of housing communities for households of low and moderate income.
- C) Sheltering and aiding homeless single-parent families.
- D) Delivering supportive services, including service coordination and youth educational services to benefit families of low and moderate income.
- E) Repairing homes owned by elderly and physically disabled persons.
- F) Providing training and consulting services to grassroots neighborhoods groups, as a vehicle of community development.
- G) Building and renovating single family housing for low and moderate income home owners.

B. Property and Equipment

Property and Equipment is stated at cost, unless otherwise noted below. Depreciation is calculated using the straight line method over the estimated useful life of the item. Items costing \$2,000.00 or more are capitalized. Donated items are recorded at fair market value at time of donation. Property and Equipment consists of the following:

Land	2,197,791.22
Buildings	20,357,320.63
Equipment	862,774.48
Vehicles	29,941.50
	<u>23,447,827.83</u>
Accumulated Depreciation	<u>5,798,249.81</u>
Property and Equipment	<u>17,649,578.02</u>

C. Third Party Reimbursement Arrangements

The following are the major revenue sources which are considered third party reimbursement arrangements:

1. Section 8 Rent Supplements - Under a Housing Assistance Program contract, the organization receives rent supplements from the U.S. Department of H.U.D. for tenants residing in low income housing units. These contracts are annual contracts unique to each low income complex. These units are regulated by H.U.D. with respect to rental charges and operating methods. Rent supplements received were \$3,766,696.96 for 2010.
2. Supportive Housing Program - Under contract with HUD the organization provides housing to qualified single parent families who are attempting to establish their independence. The organization is reimbursed for costs associated with housing, counseling and administration. The contract with the U.S. Department of H.U.D. is for one year. The contract is a multi year contract. The contract total is \$174,739.00. The funding totaled \$58,252.00 for 2010.
3. Supplemental Assistance for Facilities to Assist the Homeless Program (SAFAH) - Under a contract with H.U.D. and administrated by the Kentucky Housing Corporation, the organization provides housing to qualified single parent families who are attempting to establish their independence. The organization is reimbursed for costs associated with housing, counseling and administration. The funding totaled \$93,153.00 for 2010.
4. The Smoketown/Shelby Park Rehabilitation Project - under contract with H.U.D. and administrated by the City of Louisville the organization provides home repair for low income residents of the City of Louisville. The contract is a multi-year contract and \$294,147.00 was earned during the fiscal year ended June 30, 2010.
5. Neighborhood Stabilization Program (NSP) - under contracts with the City of New Albany, Indiana, a subgrantee to Indiana Housing and Community Development Authority, and Louisville Metro Government, the organization has undertaken significant community stabilization activities using U.S. Department of Housing and Urban Development NSP I funds to acquire, develop or rehabilitate vacant and abandoned single

family housing in focus neighborhoods. Upon project completion, high quality affordable homes will be marketed to qualified buyers, who will be encouraged to secure extensive housing counseling preparation. Reimbursable costs include acquisition, construction, developer fees, home ownership counseling and program delivery fees. Program activities began in April 2010, reaching \$82,500.00 in expenditures before June 30, 2010. Grant funds of over \$6.4 million with New Albany and \$825,000.00 in Louisville will yield development fees in excess of \$660,000.00 in the first of three phases of stabilization operations ending by March 2013.

D. Allowance for Doubtful Accounts

A reserve for collection loss is established whenever a tenant moves out leaving a balance due. The reserve is annually adjusted to eliminate all tenants who have been turned over to collection. Management has reviewed receivables from related entities and has determined that there are amounts doubtful of collection. Management believes all other receivables are collectible.

E. Estimates and Assumptions

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as highly liquid debt instruments with a maturity of three months or less when purchased. There were no cash equivalents at June 30, 2010.

G. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions. Contributions are reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

H. Donor-Imposed Restrictions

The Corporation records and reports its assets, liabilities, net assets, revenues, expenses, gains and losses, and other support based on the existence or absence of donor-imposed restrictions.

The Corporation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Contributions of donated noncash assets are recorded at their fair market values in the period received.

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Corporation reports gifts as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

I. Functional Allocation of Expenses

The costs of providing the programs and supporting services have been presented on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted.

J. Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

K. Principles of Consolidation

The consolidated financial statements include the accounts of New Directions Housing Corporation and three LLC's, (the "Broadstreet" properties), which are each 99% owned: Directions Apartments LLC; Shawnee Apartments LLC; and Russell Apartments LLC. All material inter-organization transactions have been eliminated in consolidation.

L. Acquired Intangible

As part of the "Broadstreet" properties transaction, New Directions acquired the rights to manage the properties. This right is considered to have an indefinite useful life and is not being amortized. Management believes the fair value of this asset approximates its carrying value.

M. NeighborWorks America Grant

NeighborWorks America DBA Neighborhood Reinvestment Corporation provided 322,000.00 in capital and expendable grants during the year for making loans and for capital projects and core organizational expenses. \$235,000.00 is permanently restricted although proceeds on capital projects and interest earned over and above the corpus may be transferred to unrestricted net assets for furthering the mission of New Directions. However, should New Directions become defunct, all remaining grant funds, interest earnings, capital project proceeds, and loan and capital project portfolios representing the use of these funds will revert to Neighborhood Reinvestment Corporation.

<u>Project</u>	<u>Amount Due</u>	<u>Interest Rates</u>	<u>Terms</u>
Smoketown Apartments, LLC	64,959.00 *	6%	One payment due March 26, 2010, interest due monthly
Smoketown Apartments, LLC	75,000.00 *	0%	Payments of \$5000.00 due semi-annually maturing on July 1, 2015
Jackson Woods Apartments	185,000.00 *	0%	Payments due when project has sufficient funds
St. William Apartments	80,000.00 *	0%	Payments of \$40,000.00 due April 1, 2009 and June 1, 2009
St. William Apartments	90,000.00 *	0%	Payments of \$45,000.00 due March 31, 2009 and June 30, 2009
St. William Apartments	100,000.00 *	0%	Payments of \$50,000.00 due April 1, 2009 and June 1, 2009
St. William Apartments	<u>120,000.00</u> *	0%	Payments due when project has sufficient funds
	714,959.00		
Less: Internal Loans	<u>(714,959.00) *</u>		
	<u>.00</u>		

N. Income Taxes

In December 2008, the Financial Accounting Standards Board issued FASB Staff Position (FSP) FIN 48-3, Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (Interpretation 48), Accounting for Uncertainty in Income Taxes, to its annual financial statements for fiscal years beginning after December 15, 2008. The Organization has elected to defer the application of Interpretation 48 for the year ending June 30, 2009. The Organization evaluates its uncertain tax positions using the provisions for FASB Statement 5, Accounting for Contingencies.

Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized.

NOTE II: Notes and Mortgages Receivable

Note Receivable - Jackson Woods Apartments, LLLP	1,018,180.00
Note Receivable - St. William Apartments, LLLP	353,000.00
Note Receivable - St. Edward Court, Ltd.	
See Note IX	193,119.73
Less: Allowance for Bad Debts	(193,119.73)
Note Receivable - Solidarity Fund	3,949.85
Note Receivable - Brandeis Partners, Ltd.	
- See Note IX	67,500.00
Less: Allowance for Bad Debts	(67,500.00)
Residual Receipts Note -	
Reeser Court Apartments, Inc.	<u>13,963.97</u>
	<u>1,389,093.82</u>

Residual Receipts Note

The residual receipts note due from Reeser Court Apartments, Inc. can be paid only from residual receipts and bears interest at 5 ½%. Accrued interest is included in other receivables and totaled \$14,179.46 at June 30, 2010.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

NOTE III: Accounts Receivable

Related Entities - Managed Properties	
Jackson Woods Apartments, LLLP	17,964.09
St. William Apartments, LLLP	8,372.77
O'Connor Square Ltd.	66,276.16
Less: Allowance for Bad Debts	(66,276.16)
Reeser Court Apartments, Inc.	21,789.53
Less: Allowance for Bad Debts	(21,789.53)
St. John Gardens, Inc.	7,970.43
Less: Allowance for Bad Debts	(2,970.43)
Brandeis Partners Ltd.	794,606.90
Less: Allowance for Bad Debts	(758,008.00)
St. Edward Court Ltd.	1,054,703.77
Less: Allowance for Bad Debts	(1,054,703.77)
New Visions Residential Services, Inc.	68,988.20
Less: Allowance for Bad Debts	<u>(68,988.20)</u>
	67,935.76
Other Receivables	
Developers Fees	298,242.45
Less: Allowance for Bad Debts	(248,242.45)
Managed Properties	7,964.53
Tenant Related Receivables	26,634.33
Section 8 Subsidy Receivable	39,848.00
Miscellaneous Receivables	48,610.29
Grants Receivable	<u>457,109.26</u>
	<u>630,166.41</u>
	<u>698,102.17</u>

The managed properties' balances reflect charges for management and maintenance performed by New Directions' personnel plus minor charges for material purchased by New Directions and cash advances to cover operating deficits of the properties. The cash advances are non-interest bearing and unsecured.

NOTE IV: Temporarily & Permanently Restricted Assets

Temporarily Restricted Assets:	
Casa Capital Fund	11,693.75
Unconditional Promises to Give	<u>158,909.60</u>
	<u>170,603.35</u>
Permanently Restricted Assets:	
Capital Grant Funds - Neighborworks	<u>714,959.00</u>

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

NOTE V:	<u>Contractually Designated Assets</u>	
	Hazard and Mortgage Insurance Escrows	25,573.80
	Security Deposits	72,800.94
	Replacement Reserves	<u>1,197,972.57</u>
		<u>1,296,347.31</u>

HUD regulations require that restricted funds be held in separate federally insured accounts which are not available for operating purposes.

Contractually Designated Liabilities

The contractually designated liabilities are comprised of the following:

Security Deposits	<u>73,442.13</u>
	<u>73,442.13</u>

This liability offsets the amounts held in the contractually designated asset accounts.

Contractually designated net assets are:	
Contractually Designated Assets	1,296,347.31
Contractually Designated Liabilities	<u>(73,442.18)</u>
Contractually Designated Net Assets	<u>1,222,905.13</u>

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

NOTE VI: Notes and Mortgages Payable

<u>Mortgagor</u>	<u>Current Amount</u>	<u>Non-Current Amount</u>	<u>Interest Rate</u>	<u>Due Date</u>	<u>Collateral</u>
H.U.D.	14,477.11	341,903.83	5.75%	02/01/40	Smoketown Apartments, LLC
H.U.D.	.00	37,418.95	4.00%	see notes	Smoketown Apartments, LLC
H.U.D.	33,903.77	33,378.67	7.00%	05/01/13	Pearson Apartments
K.H.C.	18,964.22	46,291.81	7.50%	08/01/13	First Mortgage on Historic Parkland Properties
HUD - Flexible Subsidy Loan	.00	31,821.34	1.00%	02/01/40	Smoketown Apartments, LLC
City of Louisville	.00	340,000.00	3.00%	see notes	2nd Mortgage on Historic Parkland Properties
PNC Bank	970,000.00	.00	3.25% Floating	03/31/11	All Business Assets (1,100,000.00 line of credit)
City of New Albany	38,753.43	19,742.59	2.50%	09/15/11	Unsecured
Metropolitan Housing Coalition	50,000.00	150,000.00	3.00%	08/27/11	Unsecured
Metropolitan Housing Coalition	50,000.00	250,000.00	3.00%	02/12/12	Unsecured
Red Mortgage Capital, Inc.	15,489.51	748,548.28	6.25%	06/01/33	Russell Apartments -First Mortgage
Red Mortgage Capital, Inc.	37,938.36	1,833,414.90	6.25%	06/01/33	Shawnee Apartments -First Mortgage
Red Mortgage Capital, Inc.	19,453.00	940,088.57	6.25%	06/01/33	Directions Apartments -First Mortgage

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

Louisville/ Jefferson County Metro Government	.00	1,619,755.12	1.00%	06/01/33	Directions Apartments -Second Mortgage
PNC Bank	35,684.21	943,897.59	4.50%	08/31/12	Roosevelt Apartments -First Mortgage
Fifth Third Bank	73,530.83	.00	4.25% in excess of LIBOR	11/17/10	St. Williams Apartments
PNC CPI SUB-CDE IV-1 LLC - Loan A	.00	1,152,000.00	5.5626%	05/01/15	First Mortgage and Security Agreement
PNC CPI SUB-CDE IV-1 LLC - Loan B	.00	310,000.00	5.5626%	05/01/23	Second Mortgage and Security Agreement
	<u>1,358,194.44</u>	<u>8,798,261.65</u>			

Current Maturities of Long Term Debt: Fiscal Year Ended June 30,

2011	388,194.44
2012	202,951.71
2013	1,425,059.70
2014	92,474.86
2015	98,348.13

NOTE VII: Notes and Mortgages Payable

The City of Louisville has loaned, under its Rehab Investor Program, a total of \$340,000.00 to purchase and renovate certain properties that were previously owned by the Historic Parkland Limited Partnership. This loan is subordinated to the loan from KHC which was also used to purchase the Historic Parkland Partnership property. The City of Louisville loan will commence amortizing after the KHC loan is paid off.

New Directions signed a Lead Grant Forgivable Mortgage with the Louisville/Jefferson County Metro Government. This mortgage is to be used by the organization to cover expenses incurred in abating the lead paint hazard. This loan is due to be forgiven 1/3 per year. The mortgage balance will become immediately due and payable if the organization violates any of the provisions of the loan agreement at any time during the mortgage term. During the fiscal year ended June 30, 2010, \$74,720.66 was forgiven, which is the final amount to be forgiven.

NOTE VIII: Related Party Transactions

New Directions acts as management agent for other non profit corporations which have the same board of directors. New Directions bills these other entities for repairs and maintenance, management fee, resident manager fees, bookkeeping fees and other fees. The following amounts, by entity, are included on the income statement of New Directions.

Reeser Court Apartments, Inc.	126,210.76
St. John Gardens, Inc.	26,012.66
Clifton Court Apartments, Inc.	30,032.51

See Note III for the amounts these managed properties owe New Directions for amounts advanced to cover operating deficits and balances due on fees charged

New Directions also collects from partnerships, in which it is general partner, fees for repairs and maintenance, management, resident manager and bookkeeping.

Jackson Woods Apartments, LLLP	16,915.06
St. William Apartments, LLLP	2,379.18
Brandeis Partners, Ltd.	63,563.36
O'Connor Square, Ltd.	86,220.76
St. Edward Court, Ltd.	92,255.68

NOTE IX: Partnership Interests/Related Party Developer Fees

New Directions accounts for its investment in partnerships under the equity method, that is, its costs of investments is increased or decreased annually by its share of the partnership's gain or loss. New Directions total investment in partnerships is \$25,386.58 at June 30, 2010. These amounts are included in other assets on the Statement of Financial Position.

(a) Pearson Apartments Partnership

In December, 1993, New Directions Housing Corporation received a donation of a 15 percent interest in Pearson Apartment Co. The donation had no value. In December of 1996 an additional 40 percent was donated and was valued at \$110,139.00. In December of 1997 and January of 1998 an additional 15% interest in the partnership was received and valued at \$41,232.15. In December 2009, the final 30% of the partnership was received and valued at \$253,500.00. Therefore, as of June 30, 2010 New Directions owns 100% of the property and its activity is included with New Directions on the consolidating schedules.

(b) Brandeis School Apartments Partnership

During the fiscal year ended March 31, 1996 a limited partnership was formed to develop the former Brandeis School property into a low income apartment complex. The property and its associated debt was deeded to the partnership by New Directions.

New Directions is the 1% general partner of the partnership. Its capital contributions totaled \$33,458.00 as of June 30, 2010.

Developers fees, earned in the fiscal year ended March 31, 1997, total \$497,343.00 and are payable as follows:

Cash in August of 1996		30,493.00
Annual Installments Were Paid as Follows:		
Fiscal Year Ended 3/31/98	80,000.00	
Fiscal Year Ended 6/30/99	80,000.00	
Fiscal Year Ended 6/30/00	80,000.00	
Fiscal Year Ended 6/30/01	<u>80,000.00</u>	320,000.00
Note, due 3/31/2012		<u>146,850.00</u>
		<u>497,343.00</u>

The above note has a balance due of \$67,500.00. See Note II regarding the allowance for bad debts related to this note. The general partner has an obligation to make additional capital contributions in future years if certain specified "Priority Returns of Limited Partners" are not achieved. The general partner also has the right to purchase the limited partner's interests at fair market value at the end of the low income housing tax compliance period. The general partner has advanced funds to the partnership to cover operating deficits. See Note III for the amount advanced to date.

(c) Jefferson Apartments II Ltd.

New Directions is a limited partner in this partnership. Its initial capital contribution was \$56.00.

(d) O'Connor Square, Ltd.

New Directions is the .01% general partner in this limited partnership. This partnership owns and operates a multi-family housing complex. This partnership, per the partnership agreement, will dissolve and terminate on December 31, 2050. New Directions capital contributions total \$45,156.65 to date. Developers fees earned in the fiscal year ended June 30, 2001 totaled \$361,157.00 and \$273,709.55 has been paid to date. The remaining fee, \$87,447.45, will be paid on the occurrence of specific objectives outlined in the partnership agreement. See Note III regarding the allowance for bad debts related to this note.

New Directions has an obligation to loan the partnership funds to cover operating deficits, such loan is not to exceed \$185,000.00. See Note III for the amount loaned to date.

(e) West Muhammad Ali Blvd., Ltd.

New Directions is a limited partner in this partnership. Its initial capital contribution was \$93.00.

(f) St. Edward Court, Ltd.

New Directions is the 1% general partner in St. Edward Court, Ltd. (St. Edward Court), a limited partnership that owns and operates a multi-family housing complex. New Directions capital contribution in 2001 was \$9,230.00, and St. Edward's partnership agreement provides for its dissolution on December 31, 2047.

During 2001, New Directions and St. Edward Court entered into a contract calling for New Directions to serve as the developer for the rehabilitation of the housing complex for a total fee of \$630,000.00. The contract provides that the fee is periodically earned (in specified amounts) based on the occurrence of identified events. Events that have occurred through June 30, 2002 result in \$100,000 of earned and payable development fees based on contract provisions. Based on architectural certifications the project is 80% complete at June 30, 2002, and St. Edward Court used the architectural certification to authorize a \$100,000.00 aggregate payment. As of June 30, 2003, the project is 100% complete.

However, management of New Directions believes its development fee is earned based on the percentage of completion of the construction project. Accordingly, New Directions 2002 financial statements recognize \$504,000.00 (80% of \$630,000.00) as earned development fees and its 2003 financial statements reflected the remaining 20%, \$126,000.00, as earned development fees.

The remaining development fee is \$160,795.00 at June 30, 2010. The fee is to be paid on the occurrence of the specifically identified events previously mentioned. See Note III regarding the allowance for bad debts related to this note. New Directions is not responsible for direct or indirect costs of construction of the housing complex.

Separate from its contract as the project manager, as the general partner New Directions has committed to advance St. Edward Court cash to cover operating deficits. See Note III for the amount advanced to date.

New Directions has loaned \$193,119.73, per Note II, to the partnership and has secured the loan with a second mortgage on the partnership's real property and improvements thereon. This loan bears interest at 4.35% and is due on September 15, 2011. See Note II regarding the allowance for bad debts related to this note.

(g) Directions Apartments, LLC; Shawnee Apartments, LLC; Russell Apartments, LLC.

On April 29, 2003 these three LLC's acquired a group of properties known as "Broadstreet Properties". New Directions is a 99% member in each of these LLC's through its wholly owned, single member LLC named New Directions Housing Development, LLC. See Note I for information regarding the consolidation of these LLC's in the financial statements of New Directions.

(h) Smoketown Apartments, LLC

During the fiscal year, Smoketown Housing Improvements Corporation, underwent a mark to market transaction. As a result of this, New Directions Housing Corporation became the sole owner of this complex by virtue of its being the single member of the LLC.

(i) Jackson Woods Apartments, LLLP

On May 13, 2010 New Directions Housing Corporation sold the Jackson Woods Apartments housing complex. New Directions is the general partner in this partnership through its single member LLC, Jackson Woods Apartments NDHC GP, LLC.

New Directions has a seller note receivable in the amount of \$1,018,180.00 bearing interest of 5.0% per annum compounded annually. The note is due in one installment of principal and all unpaid interest on December 31, 2041. New Directions through its single member LLC, NDHC Development LLC, will receive a developer's fee in the total amount of \$800,000.00 to be earned upon a schedule as outlined in the developer agreement but 100% shall be deemed earned upon completion of the rehabilitation of the project, \$80,000.00 has been earned and paid to date.

(j) St. William Apartments, LLLP

On June 15, 2010 New Directions Housing Corporation sold the St. William Apartments housing complex. New Directions is the general partner in this partnership through its single member LLC, St. William Apartments NDHC GP LLC. NDHC sold this property for \$610,500.00, receiving \$257,500.00 cash at closing and a seller note in the amount of \$353,000.00. The note bears interest at 5.0% per annum compounded annually. The note is due in one installment of principal and all unpaid interest on December 31, 2040. New Directions through its single member LLC, NDHC Development LLC, will receive a developer's fee in the total amount of \$450,000.00 to be earned upon a schedule as outlined in the developer agreement but 100% shall be deemed earned upon completion of the project, \$50,000.00 has been earned but is unpaid as of June 30, 2010.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2010

NOTE X: Contingency

The Smoketown Apartments project has a contract with the U.S. Dept. of H.U.D. which provides housing assistance payments to qualified individuals. The following is a listing:

Contract #	Termination Date	Annual Commitment
KY36-L000-005	January 31, 2030	65,770.00

The Pearson Apartments project has a contract with the U.S. Department of H.U.D. which provides housing assistance payments to qualified individuals. The following is a listing:

Contract #	Termination Date	Annual Commitment
KY36-L000-006	May 31, 2014	295,776.00

If these contracts are not renewed and the projects suffer a decline in rental income, then the carrying value of their assets would be impaired and the ability of the projects to continue as a going concern would be in doubt.

NOTE XI: Unconditional Promises to Give

The Organization has future Unconditional Promises to Give as follows:

Temporarily Restricted	
2010-2011	<u>158,909.60</u>
	<u>158,909.60</u>

Unconditional promises to give have been temporarily restricted for the following programs:

Neighborhood Initiatives	14,000.00
Learning Centers	72,811.05
Transitional Services	<u>72,098.55</u>
	<u>158,909.60</u>

The Organization considers promises to give to be fully collectible and therefore no adjustment has been made to their value. The fair value of promises to give approximate their carrying value.

NOTE XII: Concentration of Credit Risk

The Organization has at various times during the year amounts on deposit that are in excess of FDIC coverage.

NOTE XIII: Donated Goods and Services

New Directions receives donated goods and services for use in its program services. These goods and services are valued at equivalent purchase costs and have been recorded as contribution income and program service costs or fixed assets. As of June 30, 2010, no contribution received met these requirements.

NOTE XIV: Litigation

The Organization is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Organization's financial position or the results of operations and should be covered by insurance.

NOTE XV: Qualified Low Income Community Investment (QLICI) Loan

The Organization entered into two QLICI loans on May 1, 2008 with PNC CPI SUB-CDE IV-1 LLC under the New Markets Tax Credit Program. These loans have numerous covenants and restrictions of which the following are most significant:

1. Loan A is interest only for seven years and is to be renegotiated at that point.
2. Loan B is interest only for fifteen years and is subject to a put option at that point.
3. Loan A and B have mortgages and security interests in the Organization's headquarters property at 1000 E. Liberty Street and its maintenance facilities at 2100 Woodlawn Avenue and all furniture and fixtures therein and rent collected therefrom.
4. These loans have a Leverage Ratio that must be maintained at all times. The ratio shall be the ratio of total debt of borrower divided by the borrower's unrestricted net assets shown in its consolidated financial statements, this ratio shall be less than or equal to 6.50 to 1.00. This ratio is .8539 at June 30, 2010.
5. These loans are subject to a Recapture Indemnification Agreement if the borrower's project business fails to meet the requirements of a Qualified Active Low Income Community Business.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2010

NOTE XVII : OTHER ASSETS

	New Directions Housing Corporation	Directions Apartments LLC	Russell Apartments LLC	Shawnee Apartments LLC	Eliminations	Total
Tenant Security Deposits	25,711.56	9,758.49	20,547.32	16,783.57		72,800.94
Mortgage Escrow Deposits	5,982.66	4,291.34	7,454.20	7,845.60		25,573.80
Replacement Reserve	313,093.17	56,558.58	759,237.97	69,082.85		1,197,972.57
Investments - Corporations	5,908.00					5,908.00
Investments - Partnerships	(1,500,566.50)				1,525,953.08	25,386.58
Financing Fees	93,715.97	10,675.00	8,500.00	20,819.00		133,709.97
Amortization - Financing Fees	(34,265.53)	(2,550.90)	(2,030.86)	(4,973.58)		(43,820.87)
Management Rights	1,201,650.90					1,201,650.90
Organization Costs	36,244.89					36,244.89
Amortization - Organization	(2,987.92)					(2,987.92)
	<u>144,487.20</u>	<u>78,732.51</u>	<u>793,708.63</u>	<u>109,557.44</u>	<u>1,525,953.08</u>	<u>2,652,438.86</u>

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

NOTE XVIII: Subsequent Events
The Organization evaluated all subsequent events through November 22,
2010, the date the financial statements were available to be issued.

NEW DIRECTIONS HOUSING CORPORATION
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (UNCONSOLIDATED)
 FOR THE YEAR ENDED JUNE 30, 2010

Pass-Through Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
Section 8 - Low Income Housing	14.195		596,463
HUD Guaranteed Mortgage	14.139		393,800
Capital Improvement Loan	14.164		31,821
Transitional Housing Demonstration Program	14.235		93,153
S.A.F.A.H.	14.235		58,252
Service Coordinator	14.236		35,847
CDBG/Home	14.218		189,357
Home Funds	14.239		<u>294,147</u>
Total U.S. Department of Housing and Urban Development			<u>1,692,840</u>
U.S. Department of Treasury Neighborworks	21.020		<u>322,300</u>
Total U.S. Department of Treasury			<u>322,300</u>

See Notes to Financial Statements.