

NEW DIRECTIONS HOUSING CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2007

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CERTIFIED PUBLIC ACCOUNTANTS  
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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, 2007, 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, 2007, 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 January 28, 2008 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

January 28, 2008

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007

Assets

|                                     |                   |                      |
|-------------------------------------|-------------------|----------------------|
| Cash                                |                   | 899,685.57           |
| Cash - Restricted by Grant          |                   | 216,780.54           |
| Receivables                         |                   |                      |
| Accounts Receivable, net            | 1,899,268.20      |                      |
| Notes and Mortgages Receivable, net | 317,683.28        |                      |
| Note Receivable Neighborworks Loans | 80,100.00         |                      |
| Unconditional Promises to Give      | <u>162,747.49</u> | 2,459,798.97         |
| Prepaid Expenses                    |                   | 174,233.38           |
| Inventories                         |                   | 77,448.89            |
| Other Assets                        |                   | 2,845,795.49         |
| Property and Equipment              |                   | <u>19,423,862.12</u> |
| Total Assets                        |                   | <u>26,097,604.96</u> |

Liabilities

|                       |  |                  |
|-----------------------|--|------------------|
| Accounts Payable      |  | 160,279.53       |
| Accrued Expenses      |  | 1,264,795.67     |
| Deferred Revenue      |  | 26,335.59        |
| Short Term Debt       |  | 2,274,060.62     |
| Deposits              |  | 78,085.28        |
| Long Term Debt        |  | 18,306,667.34    |
| Distributions Payable |  | <u>40,839.38</u> |
| Total Liabilities     |  | 22,151,063.41    |

Net Assets

|                                  |                   |                      |
|----------------------------------|-------------------|----------------------|
| Unrestricted                     |                   |                      |
| Operating                        | 2,205,586.97      |                      |
| Contractually Designated         | 1,301,365.91      |                      |
| Temporarily Restricted           | 164,977.67        |                      |
| Permanently Restricted           | <u>274,611.00</u> | <u>3,946,541.55</u>  |
| Total Liabilities and Net Assets |                   | <u>26,097,604.96</u> |

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

|   | UNRESTRICTED        | TEMPORARILY<br>RESTRICTED | PERMANENTLY<br>RESTRICTED | TOTAL               |
|---|---------------------|---------------------------|---------------------------|---------------------|
| Revenues, Gains and Other Support         |                     |                           |                           |                     |
| Contributions                             |                     | 135,660.10                |                           | 135,660.10          |
| Rent Income                               | 4,488,749.02        |                           |                           | 4,488,749.02        |
| Grant Income - Operations                 | 1,358,254.80        | 486,724.75                | 75,000.00                 | 1,919,979.55        |
| Maintenance, Management and<br>Other Fees | 947,420.35          |                           |                           | 947,420.35          |
| Interest Income                           | 50,900.93           |                           |                           | 50,900.93           |
| Miscellaneous                             | 410,219.31          |                           |                           | 410,219.31          |
| Net Assets Released from<br>Restriction   | <u>657,774.07</u>   | <u>(657,774.07)</u>       |                           |                     |
|   | 7,913,318.48        | (35,389.22)               | 75,000.00                 | <u>7,952,929.26</u> |
| Expenses                                  |                     |                           |                           |                     |
| Program Expenses                          | 7,764,144.46        |                           |                           | 7,764,144.46        |
| Supporting Expenses                       |                     |                           |                           |                     |
| Management and General                    | 594,650.50          |                           |                           | 594,650.50          |
| Fundraising                               | <u>46,966.36</u>    |                           |                           | <u>46,966.36</u>    |
| Total Expenses                            | <u>8,405,761.32</u> |                           |                           | <u>8,405,761.32</u> |
| Increase (Decrease) in Net Assets         | (492,442.84)        | (35,389.22)               | 75,000.00                 | (452,832.06)        |
| Less: Distributions                       | (1,080.00)          |                           |                           | (1,080.00)          |
| Beginning Net Assets                      | <u>4,000,475.72</u> | <u>200,366.89</u>         | <u>199,611.00</u>         | <u>4,400,453.61</u> |
| Ending Net Assets                         | <u>3,506,952.88</u> | <u>164,977.67</u>         | <u>274,611.00</u>         | <u>3,946,541.55</u> |

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2007

Cash Flows from Operating Activities:

Decrease in Net Assets (452,832.06)

Adjustments to Reconcile Decrease in Net Assets to  
Net Cash Provided by Operating Activities:

|   |              |                     |
|---|--------------|---------------------|
| Depreciation & Amortization               | 887,977.77   |                     |
| Cash Restricted for Long-term Purposes    | (136,780.54) |                     |
| Gain on Sale of Fixed Assets              | (1,300.00)   |                     |
| Non Cash Operating Items                  |              |                     |
| Loan Forgiveness                          | (309,019.65) |                     |
| Interest Deferred Added to Principal      | 110,544.36   |                     |
| (Increase) Decrease Promises to Give      | 32,975.51    |                     |
| (Increase) Decrease Accounts Receivable   | 958,191.93   |                     |
| (Increase) Decrease Inventories           | (16,102.97)  |                     |
| (Increase) Decrease Prepaid Expenses      | 44,870.23    |                     |
| (Decrease) Increase Accounts Payable      | (9,605.09)   |                     |
| (Decrease) Increase Accrued Expenses      | 249,518.51   |                     |
| (Decrease) Increase Deferred Revenue      | 12,261.30    |                     |
| (Decrease) Increase Refundable Deposits   | 644.02       |                     |
| Total Adjustments                         |              | <u>1,824,175.38</u> |
| Net Cash Provided by Operating Activities |              | <u>1,371,343.32</u> |

Cash Flows from Investing Activities:

|   |              |                     |
|---|--------------|---------------------|
| Proceeds from Sale of Fixed Assets              | 1,300.00     |                     |
| Financing Fees                                  | (4,400.00)   |                     |
| Solidarity Fund Loans                           | (1,050.00)   |                     |
| Borrowing of Notes/Mortgage Receivable          | (252,736.35) |                     |
| Neighborworks Funds Loaned                      | (80,100.00)  |                     |
| Investment Activity - Partnerships/Corporations | 9,159.73     |                     |
| Capital Expenditures                            | (272,506.08) |                     |
| Deposits into Reserves/Escrows                  | (550,367.45) |                     |
| Releases from Reserves/Escrows                  | 552,702.48   |                     |
| Net Cash Used by Investing Activities           |              | <u>(597,997.67)</u> |

Cash Flows from Financing Activities:

|                                       |                |                     |
|---------------------------------------|----------------|---------------------|
| Borrowings on Notes & Mortgages       | 1,272,022.82   |                     |
| Repayments of Notes & Mortgages       | (1,747,165.82) |                     |
| Bank Overdraft                        | (283.37)       |                     |
| Net Cash Used by Financing Activities |                | <u>(475,426.37)</u> |

Net Increase in Cash 297,919.38

Cash at Beginning of Year 601,766.29

Cash at End of Year 899,685.57

Supplementary Cash Flow Disclosure

Cash Interest Paid 498,493.15

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.

B. Inventory

Inventories of supplies are recorded at most recent cost on a first in - first out basis.

77,448.89

C. 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                     | 2,330,240.92         |
| Buildings                | 21,724,407.57        |
| Equipment                | 1,277,590.53         |
| Vehicles                 | <u>65,762.68</u>     |
|                          | 25,398,001.70        |
| Accumulated Depreciation | <u>5,974,139.58</u>  |
| Property and Equipment   | <u>19,423,862.12</u> |



D. 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 \$3,757,140.98 for 2007.
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 funding totaled \$94,652.00 for 2007.
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 contract is a multi year contract. The contract total is \$283,825.00. The funding totaled \$58,242.00 for 2007.
4. Repair Affair Roof Initiative and the Newburg Revitalization Project - under contract with H.U.D. and administrated by the City of Louisville the organization provides new roofs and home repair for low income residents of the City of Louisville. The contract is a multi-year contract and \$924,677.32 was earned during the fiscal year ended June 30, 2007.

E. 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 believes all other receivables are collectible.

F. 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.

G. 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, 2007.

H. Financial Statement Presentation

As of March 31, 1997 New Directions elected to adopt Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. As permitted by this new statement, the Corporation has discontinued its use of fund reporting and has, accordingly, reclassified its financial statements to present the three classes of net assets required.

I. Contributions

The Corporation also elected to adopt SFAS No. 116, Accounting for Contributions Received and Contributions Made, effective April 1, 1996. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions. Under SFAS No. 116, such contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

J. 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. The Corporation received building materials and other supplies for its Repair Affair program but no value was placed thereon, therefore no amounts have been included in these financial statements for the contribution and the offsetting expense.

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.

K. 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.

L. 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.

M. Principles of Consolidation

The consolidated financial statements include the accounts of New Directions Housing Corporation, Pearson Apartments Company (a Partnership) (70% owned) and three LLC's, (the "Broadstreet" properties), which are each 99% owned: Directions Apartments LLC; Shawnee Apartments LLC; and Russell Apartments LLC. The activity of Pearson Apartments Company is for its calendar year ended and no significant changes have occurred since December 31, 2006 through June 30, 2007.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

All material inter-organization transactions have been eliminated in consolidation.

N. 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.

O. Neighborworks America Grant

Neighborhood Reinvestment Corporation provided a \$75,000.00 capital grant during the year for making loans and for capital projects. This amount 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.

During the year, New Directions made loans to Heverin House a division of New Directions, St. John Gardens, Inc., Brandeis Partners, Ltd. and Pearson Apartments Partnership.

The loan to Heverin House was made on June 28, 2007 for \$17,088.00 and is due in two years. Interest is at 6% and begins on July 1, 2007.

The loan to St. John Gardens, Inc. was made on May 3, 2007 for \$35,000.00 and is due in two years. Interest is at 6% and begins on July 1, 2007.

The loan to Brandeis Partners, Ltd. was made on September 26, 2006 for \$38,600.00 and is due in two years. Interest is at 6% and begins on July 1, 2007. The balance outstanding at June 30, 2007 is \$35,100.00.

The loan to Pearson Apartment, Co. was made on May 3, 2007 for \$10,000.00 and is due in two years. Interest is at 6% and begins on July 1, 2007.

NOTE II: Notes and Mortgages Receivable

|   |                   |
|---|-------------------|
| Note Receivable - St. Edwards Court, Ltd. |                   |
| See Note IX                               | 230,219.31        |
| Note Receivable - Solidarity Fund         | 6,000.00          |
| Note Receivable - Brandeis Partners, Ltd. |                   |
| - See Note IX                             | 67,500.00         |
| Residual Receipts Note -                  |                   |
| Reeser Court Apartments, Inc.             | 13,963.97         |
|   | <u>317,683.28</u> |

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

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 1/4%. Accrued interest is included in other receivables and totaled \$11,875.40 at June 30, 2007.

NOTE III: Accounts Receivable

|  |                     |
|--|---------------------|
| Related Entities - Managed Properties  |                     |
| Smoketown Apartments, Inc.             | 101,355.70          |
| O'Connor Square Ltd.                   | 6,863.51            |
| Reeser Court Apartments, Inc.          | 17,673.30           |
| St. John Gardens, Inc.                 | 3,886.56            |
| Brandeis Partners Ltd.                 | 491,446.68          |
| St. Edward Court Ltd.                  | 527,663.91          |
| New Visions Residential Services, Inc. | <u>70,316.73</u>    |
|  | 1,219,206.39        |
| Other Receivables                      |                     |
| Developers Fees - See Note IX          | 263,114.45          |
| Managed Properties - Not Related       | 37,971.77           |
| Tenant Related Receivables,            | 82,069.88           |
| Less: Allowance for Uncollectible      |                     |
| Accounts                               | (45,442.08)         |
| Section 8 Subsidy Receivable           | 16,306.68           |
| Miscellaneous Receivables              | 19,832.48           |
| Employee Receivables                   | 2,869.28            |
| Grants Receivable                      | <u>303,339.35</u>   |
|  | <u>680,061.81</u>   |
|  | <u>1,899,268.20</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. Management believes all advances are collectible.

NOTE IV: Temporarily & Permanently Restricted Assets

|                                     |                   |
|-------------------------------------|-------------------|
| Temporarily Restricted Assets:      |                   |
| Casa Capital Fund                   | 2,230.18          |
| Unconditional Promises to Give      | <u>162,747.49</u> |
|                                     | <u>164,977.67</u> |
| Permanently Restricted Assets:      |                   |
| Capital Grant Funds - Neighborworks | <u>274,611.00</u> |

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE V: Contractually Designated Assets

|                                       |                     |
|---------------------------------------|---------------------|
| Hazard and Mortgage Insurance Escrows | 151,615.38          |
| Security Deposits                     | 79,102.81           |
| Replacement Reserves                  | 969,212.37          |
| Residual Receipts Reserves            | <u>179,655.63</u>   |
|                                       | <u>1,379,586.19</u> |

Contractually Designated Liabilities

The contractually designated liabilities are comprised of the following:

|                   |                  |
|-------------------|------------------|
| Security Deposits | <u>78,220.28</u> |
|                   | <u>78,220.38</u> |

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

Contractually designated net assets are:

|                                      |                     |
|--------------------------------------|---------------------|
| Contractually Designated Assets      | 1,379,586.19        |
| Contractually Designated Liabilities | <u>(78,220.28)</u>  |
| Contractually Designated Net Assets  | <u>1,301,365.91</u> |

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.                         | 43,671.00             | 265,193.04                | 7.0%                 | 05/01/13        | Jackson Woods Apartments                                     |
| H.U.D.                         | 26,555.51             | 142,376.23                | 7.0%                 | 05/01/13        | Pearson Apartments   |
| K.H.C.                         | 15,153.83             | 99,184.33                 | 7.5%                 | 08/01/13        | First Mortgage on Historic Parkland Properties               |
| Fifth Third Bank               | 910,000.00            | .00                       | 8.25% Floating       | 03/04/08        | First Mortgage on 1000 E. Liberty (1,600,000 line of credit) |
| HUD - Capital Improvement Loan | 30,241.98             | 159,474.14                | 3.0%                 | 07/01/15        | Jackson Woods Apartments                                     |
| Chase Bank                     | 399,676.82            | .00                       | 8.25% Floating       | 03/02/08        | All Business Assets (450,000 line of credit)                 |

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

|  |                     |                      |       |                      |  |
|--|---------------------|----------------------|-------|----------------------|--|
| City of<br>Louisville                                  | .00                 | 340,000.00           | 3.00% | see notes            | 2nd Mortgage on<br>Historic<br>Parkland<br>Properties        |
| PNC Bank   | 700,000.00          | .00                  | 8.25% | 11/30/07<br>Floating | All Business Assets<br>(800,000 line<br>of credit)           |
| City of<br>New Albany                                  | 36,186.40           | 124,032.91           | 2.50% | 09/15/11             | Unsecured  |
| Metropolitan<br>Housing<br>Coalition                   | 95,000.00           | .00                  | 3.00% | 11/09/07             | Unsecured  |
| Red Mortgage<br>Capital, Inc.                          | 12,847.51           | 792,264.85           | 6.25% | 06/01/33             | Russell Apartments<br>-First Mortgage                        |
| Red Mortgage<br>Capital, Inc.                          | 31,467.31           | 1,940,490.19         | 6.25% | 06/01/33             | Shawnee Apartments<br>-First Mortgage                        |
| Red Mortgage<br>Capital, Inc.                          | 16,134.94           | 994,991.74           | 6.25% | 06/01/33             | Directions Apartments<br>-First Mortgage                     |
| Louisville/<br>Jefferson<br>County Metro<br>Government | 101,064.33          | 5,593,294.50         | 1.00% | 06/01/33             | Russell Apartments<br>-Second, Third and<br>Fourth Mortgages |
| Louisville/<br>Jefferson<br>County Metro<br>Government | 114,283.00          | 2,783,767.33         | 1.00% | 06/01/33             | Shawnee Apartments<br>-Second, Third and<br>Fourth Mortgages |
| Louisville/<br>Jefferson<br>County Metro<br>Government | 52,182.00           | 1,501,991.00         | 1.00% | 06/01/33             | Directions Apartments<br>-Second and Third<br>Mortgages      |
| National City<br>Bank                                  | 31,017.65           | 1,046,263.26         | 4.50% | 08/31/12             | Roosevelt Apartments<br>-First Mortgage                      |
| Louisville/<br>Jefferson<br>County Metro<br>Government | .00                 | 2,059,000.00         | 3.00% | 02/28/28             | Roosevelt Apartments<br>-Second and Third<br>Mortgages       |
| Fifth Third<br>Bank                                    | 13,112.94           | 109,809.22           | 6.25% | 11/18/14             | St. Williams<br>Apartments                                   |
|  | <u>2,628,595.22</u> | <u>17,952,132.74</u> |       |                      |  |

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

|      |            |
|------|------------|
| 2008 | 351,389.17 |
| 2009 | 271,101.48 |
| 2010 | 286,614.98 |
| 2011 | 303,122.18 |
| 2012 | 178,089.77 |

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.

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.

|                                      |            |
|--------------------------------------|------------|
| Smoketown Housing Improvements Corp. | 60,896.59  |
| Reeser Court Apartments, Inc.        | 102,599.16 |
| St. John Gardens, Inc.               | 37,537.19  |
| Clifton Court Apartments, Inc.       | 27,529.49  |

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.

|                         |           |
|-------------------------|-----------|
| Brandeis Partners, Ltd. | 68,119.84 |
| O'Connor Square, Ltd.   | 68,307.37 |
| St. Edward, LP          | 45,402.50 |

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 a deficit of \$127,306.43 at June 30, 2007. 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. Therefore, as of June 30, 2007 New Directions owns 70% of the partnership. See Note I for information regarding the consolidation of this partnership in the financial statements of New Directions.

(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, 2007.

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. 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.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

(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.

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.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

Management believes the entire \$160,795.00 remaining development fee will be collected, and paid on the occurrence of the specifically identified events previously mentioned. Accordingly, no allowance for doubtful collection is necessary at June 30, 2007. 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 \$230,219.31 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.

(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.

NOTE X: Contingency

The Jackson Woods 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-L000-010 | May 31, 2009     | 412,572.00        |

The St. Williams 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-H134-076 | February 24, 2010 | 262,470.00        |

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.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2007

NOTE XI: Unconditional Promises to Give

The Organization has future Unconditional Promises to Give as follows:

|                                     |  |
|-------------------------------------|--|
| Temporarily Restricted<br>2007-2008 | <u>162,747.49</u><br><u>162,747.49</u> |
|-------------------------------------|--|

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

|                       |                   |
|-----------------------|-------------------|
| Learning Centers      | 81,810.65         |
| Transitional Services | <u>80,936.84</u>  |
|                       | <u>162,747.49</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. Goods and services recorded at June 30, 2007 were as follows:

|                    |                  |
|--------------------|------------------|
| Subcontractors     | 34,320.00        |
| Building Materials | <u>10,768.31</u> |
|                    | <u>45,088.31</u> |

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.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE XV: Schedule of Functional Expenses (Unconsolidated)

|                               | Management and General |             | Program Services    |                    |                       |                   | Resident Services | Sub Total    | Interdivisional Eliminations | Total        |
|-------------------------------|------------------------|-------------|---------------------|--------------------|-----------------------|-------------------|-------------------|--------------|------------------------------|--------------|
|                               | General                | Fundraising | Housing Development | Housing Management | Neighborhood Services | Rental Properties |                   |              |                              |              |
| Personnel Costs               | 567,816.99             | 28,865.36   | 174,671.15          | 1,336,000.42       |                       |                   | 546,551.66        | 2,653,905.58 |                              | 2,653,905.58 |
| Advertising and Printing      |                        |             | 18.60               | 1,339.76           |                       |                   | 1,087.65          | 3,075.55     |                              | 3,075.55     |
| Staff and Management Fees     |                        |             |                     | 81.41              |                       |                   | 96.63             | 152,032.93   | (128,598.33)                 | 23,434.60    |
| Office Supplies and Expenses  | 91,447.48              | 6,546.93    | 845.80              | 25,595.35          |                       |                   | 8,388.81          | 140,140.27   |                              | 140,140.27   |
| Telephone/Communications      | 27,775.02              |             | 1,547.47            | 17,465.38          |                       |                   | 8,543.86          | 66,234.18    |                              | 66,234.18    |
| Legal and Accounting Fees     | 10,270.00              |             | 336.90              | 1,850.00           |                       |                   | 1,562.50          | 44,864.29    | (17,416.50)                  | 27,447.79    |
| Dues and Publications         | 7,996.59               | 2,935.82    |                     | 372.00             |                       |                   | 1,208.62          | 12,613.03    |                              | 12,613.03    |
| Professional Development      |                        |             |                     |                    |                       |                   |                   |              |                              |              |
| /Conferences                  | 21,762.02              | 3,131.48    | 2,409.80            | 14,160.70          |                       |                   | 11,103.62         | 54,073.42    |                              | 54,073.42    |
| Utilities                     | 27,177.66              |             | 180.00              |                    |                       |                   | 132,581.59        | 159,939.25   |                              | 159,939.25   |
| Maintenance and Repairs       | 74,702.32              | 4.87        | 6,536.19            | 1,333.88           |                       |                   | 522,192.41        | 1,007,768.05 | (144,654.06)                 | 863,113.99   |
| Transportation                | 10,345.45              | 167.19      | 1,379.48            | (6,712.87)         |                       |                   | 8,266.68          | 24,068.59    |                              | 24,068.59    |
| Depreciation                  | 92,011.04              | 117.16      | 861.00              | 11,055.84          |                       |                   | 5,362.38          | 355,039.60   |                              | 355,039.60   |
| Insurance                     | 15,245.13              |             |                     | 8,230.56           |                       |                   | 10,547.28         | 88,242.35    |                              | 88,242.35    |
| Interest                      | 148,538.52             |             | 3,925.84            |                    |                       |                   | 154,977.26        | 307,441.62   | (4,764.13)                   | 302,677.49   |
| Events/Volunteer Expenses     | 1,331.39               | 3,143.50    |                     |                    |                       |                   | 19,316.47         | 27,354.07    |                              | 27,354.07    |
| Other Expenses                | 21,288.32              | 164.05      | 72.19               | 1,570.17           |                       |                   | 4,039.76          | 34,009.94    |                              | 34,009.94    |
| Facility expense Allocation   | 158,270.80             | 1,890.00    | 53,464.20           | 270,750.84         |                       |                   | 168,237.90        | 671,815.61   |                              | 671,815.61   |
| Total Facility Expenses       | (671,815.61)           |             |                     |                    |                       |                   |                   | (671,815.61) |                              | (671,815.61) |
| Bad Debts                     | 1,125.00               |             | 11,109.70           |                    |                       |                   |                   | 12,234.70    |                              | 12,234.70    |
| Transitional Housing Services |                        |             |                     |                    |                       |                   |                   |              |                              |              |
| Resident Services             |                        |             |                     |                    |                       |                   |                   | 41,637.00    | (41,637.00)                  | 0.00         |
| Housing Assistance            |                        |             |                     |                    |                       |                   |                   | 24,393.96    | (24,393.96)                  | 0.00         |
| Direct Assistance             |                        |             |                     |                    |                       |                   |                   | 27,317.04    | (27,317.04)                  | 0.00         |
| Contract Services             | 405.45                 |             | 544,322.31          |                    |                       |                   | 54,899.74         | 77,424.87    |                              | 77,424.87    |
| Support Services              | 605,693.57             | 46,966.36   | 801,680.63          | 1,583,093.44       | 40,004.80             | 1,282,472.87      | (3,640.00)        | 628,877.69   | (388,781.02)                 | 628,877.69   |
|                               |                        |             |                     |                    |                       |                   |                   | (3,640.00)   |                              | (3,640.00)   |
| Eliminations by Function      | (11,043.07)            | .00         | (2,255.43)          | (3,552.10)         | .00                   | (2,971.02)        | (2,971.02)        | (388,781.02) |                              | 5,550,266.96 |
|                               | 584,650.50             | 46,966.36   | 799,425.20          | 1,679,541.34       | 40,004.80             | 913,513.47        | 1,476,165.29      | 5,550,266.96 | .00                          | 5,550,266.96 |

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2007

NOTE XVI : OTHER ASSETS

|                                      | New Directions<br>Housing<br>Corporation | Pearson<br>Apartment<br>Company | Directions<br>Apartments<br>LLC | Russell<br>Apartments<br>LLC | Shawnee<br>Apartments<br>LLC | Eliminations      | Total               |
|--------------------------------------|--|---------------------------------|---------------------------------|------------------------------|------------------------------|-------------------|---------------------|
| Tenant Security Deposits             | 26,981.38                                | 2,603.00                        | 8,750.98                        | 23,057.04                    | 17,800.41                    |                   | 79,192.81           |
| Mortgage Escrow Deposits             | 31,205.37                                | 1,520.15                        | 30,494.85                       | 43,485.26                    | 46,429.90                    |                   | 153,135.53          |
| Replacement Reserve                  | 158,483.84                               | 15,130.28                       | 42,158.42                       | 592,948.61                   | 160,491.12                   |                   | 969,212.27          |
| Residual Receipts                    | 178,337.33                               | 1,318.30                        |                                 |                              |                              |                   | 179,655.63          |
| Investments - Corporations           | 22,100.59                                |                                 |                                 |                              |                              | 273,144.00        | 22,100.59           |
| Investments - Partnerships           | (127,306.43)                             |                                 |                                 |                              |                              |                   | 145,837.57          |
| Financing Fees                       | 14,237.28                                | 9,140.40                        | 10,675.00                       | 8,500.00                     | 20,819.00                    |                   | 63,371.68           |
| Amortization - Financing Fees        | (3,206.69)                               | (7,906.80)                      | (1,483.50)                      | (1,180.90)                   | (2,891.70)                   |                   | (16,669.59)         |
| Management Rights                    | 1,201,650.90                             |                                 | 94,106.67                       | 106,333.76                   | 89,408.39                    |                   | 1,201,650.90        |
| Organization Costs                   |  |                                 | <u>(78,422.27)</u>              | <u>(88,611.46)</u>           | <u>(74,506.99)</u>           |                   | <u>(241,540.72)</u> |
| Amortization - Organization<br>Costs | <u>1,502,483.57</u>                      | <u>21,805.33</u>                | <u>106,280.15</u>               | <u>684,532.31</u>            | <u>257,550.13</u>            | <u>273,144.00</u> | <u>2,845,795.49</u> |

NEW DIRECTIONS HOUSING CORPORATION  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (UNCONSOLIDATED)  
 FOR THE YEAR ENDED JUNE 30, 2007

| Pass-Through<br>Federal Grantor/Pass-Through<br>Grantor/Program or<br>Cluster Title | Federal<br>CFDA<br>Number | Entity<br>Identifying<br>Number | Federal<br>Expenditures |
|---|---------------------------|---------------------------------|-------------------------|
| U.S. Department of Housing<br>and Urban Development                                 |                           |                                 |                         |
| Section 8 - Low Income Housing  | 14.195                    |                                 | 615,531                 |
| HUD Guaranteed Mortgage   | 14.139                    |                                 | 308,864                 |
| Capital Improvement Loan  | 14.164                    |                                 | 189,716                 |
| Transitional Housing<br>Demonstration Program                                       | 14.235                    |                                 | 94,652                  |
| S.A.F.A.H.  | 14.236                    |                                 | 58,242                  |
| Service Coordinator   | 14.236                    |                                 | 49,933                  |
| CDBG/Home   | 14.218                    |                                 | 564,596                 |
| Home Funds  | 14.239                    |                                 | <u>476,098</u>          |
| Total U.S. Department of<br>Housing and Urban<br>Development                        |                           |                                 | <u>2,357,632</u>        |
| U.S. Department of Treasury<br>Neighborworks  | 21.020                    |                                 | <u>145,304</u>          |
| Total U.S. Department of<br>Treasury  |                           |                                 | <u>145,304</u>          |

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (UNCONSOLIDATED)  
FOR THE YEAR ENDED JUNE 30, 2007

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of New Directions Housing Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



CIRCULAR A-133 REPORTS

# HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS  
PROFESSIONAL LIMITED LIABILITY CORPORATION

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## 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 Housing Corporation

We have audited the financial statements of New Directions Housing Corporation (a nonprofit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered New Directions Housing Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of New Directions Housing Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether New Directions Housing Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determinations of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of New Directions Housing Corporation in a separate letter dated January 28, 2008.

This report is intended solely for the information and use of management, the audit committee, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



HENSON & ASSOCIATES  
Certified Public Accountants

Louisville, Kentucky

January 28, 2008

# HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS  
PROFESSIONAL LIMITED LIABILITY CORPORATION

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## REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To The Board of Directors  
New Directions Housing Corporation  
Louisville, Kentucky

### Compliance

We have audited the compliance of New Directions Housing Corporation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. New Directions Housing Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of New Directions Housing Corporation's management. Our responsibility is to express an opinion on New Directions Housing Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about New Directions Housing Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of New Directions Housing Corporation's compliance with those requirements.

In our opinion, New Directions Housing Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06/07-1 to 06/07-3.

Internal Control Over Compliance

The management of New Directions Housing Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered New Directions Housing Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of New Directions Housing Corporation's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

New Directions Housing Corporation's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit New Directions Housing Corporation's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities is not intended to be and should not be used by anyone other than these specified parties.

  
HENSON & ASSOCIATES  
Certified Public Accountants

January 28, 2008

NEW DIRECTIONS HOUSING CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of New Directions Housing Corporation.
2. No material weakness was identified during the audit of the New Directions Housing Corporation financial statements.
3. No instances of noncompliance material to the financial statements of New Directions Housing Corporation were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs.
5. The auditor's report on compliance for the major federal award programs for New Directions Housing Corporation expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for New Directions Housing Corporation are reported in Part C. of this Schedule.
7. The programs tested as major programs included:

| <u>CFDA No.</u> | <u>Name</u>                    |
|-----------------|--------------------------------|
| 14.139          | HUD Guaranteed Mortgage        |
| 14.195          | Section 8 - Low Income Housing |
| 14.218          | CDBG/Home                      |
| 14.239          | Home Funds                     |

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. New Directions Housing Corporation was determined to be a high-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

None

NEW DIRECTIONS HOUSING CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

Item 06/07-1

1. Criteria

This entity is responsible for determining the eligibility of its program recipients. Part of the eligibility determination should include declaration from the applicant that they are a U.S. national or legal alien.

2. Condition

One (1) tenant has no declaration of nationality.

3. Cause

The management agent did not obtain such declaration from the tenant.

4. Effect

A tenant had occupancy without the requirement of declaring his nationality.

5. Recommendation

The management agent should follow procedures for obtaining declarations of nationality from all applicants and existing tenants.

6. Benefit

Federal requirements for citizenship status will have evidence.

7. Questioned Costs

There are no questioned costs associated with this finding.

8. Management Response

Management agrees that existing policy and procedures for obtaining declaration of nationalities should be followed.

Item 06/07-2

1. Criteria

The management agent is responsible for obtaining attested evidence regarding eligibility during the initial application process from potential program recipients.

2. Condition

A review of one (1) tenant file reveals that the initial application for tenancy is unsigned.

3. Cause

The management agent did not ensure that the information listed by the applicant was attested by signature.

NEW DIRECTIONS HOUSING CORPORATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2007

4. Effect

Tenancy was granted based on unattested initial information.

5. Recommendation

The management agent should follow existing procedures for ensuring that the applications are signed at the time of receipt.

6. Benefit

Complete attested evidence will exist on the eligibility of the program recipient.

7. Questioned Costs

There are no questioned costs associated with this finding.

8. Management Response

Management agrees that existing policy and procedures for having applicants sign applications at the time of application should be followed.

Item 06/07-3

1. Criteria

The management agent is responsible for informing tenants of both their rights and responsibilities as a Federal program recipient.

2. Condition

One (1) tenant had no signed Resident Rights and Responsibilities form.

3. Cause

The management agent did not collect a signed form during the application process.

4. Effect

A tenant had occupancy without signed verification that they were informed of legal rights and responsibilities as outlined by HUD.

5. Recommendation

The management agent should follow procedures for obtaining a signed Resident Rights and Responsibilities form from all applicants.

6. Benefit

The management agent will have proof the program recipient was informed of their rights and responsibilities under the program.

7. Questioned Costs

There are no questioned costs associated with this finding.

8. Management Response

Management agrees to follow existing policy for collecting a signed Resident Rights and Responsibilities form from all tenants.



NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES

AUDITEE'S COMMENTS ON AUDIT RESOLUTION MATTERS  
RELATING TO HUD PROGRAMS  
For the Year Ended June 30, 2007

The entity has taken corrective action on all findings from the prior audit report, number and title:

Finding 06/06-1 No documented attempt to contact a potential former landlord.

Status Management agent is more closely following policies and procedures regarding applicant approval.

Finding 06/06-2 No declaration of nationality.

Status Management agent policies include provisions for documenting and determining legal status of applicants and residents.

Finding 06/06-3 Original application was unsigned.

Status Management agent procedures and policies are being more closely followed during the application process.

Finding 06/06-4 Incorrectly calculated security deposit.

Status Management agent personnel are not determining security deposit amounts until the final form 50059 is completed.

Finding 06/06-5 No signed acceptance of right and responsibilities on behalf of the signed tenant.

Status Management agent procedures and checklists are being followed for move-in procedures.

Finding 06/06-6 No birth certificate on a minor dependent.

Status The management agent is more closely following the policies to obtain birth certificates on newborn dependents.

NEW DIRECTIONS HOUSING CORPORATION  
SCHEDULE OF FINANCIAL POSITION -  
NEIGHBORHOOD REINVESTMENT CAPITAL FUND  
FOR YEAR ENDED JUNE 30, 2007

Assets

|                   |                   |
|-------------------|-------------------|
| Cash in Bank      | 176,780.54        |
| Loan Receivable   | 97,188.00         |
| Other Receivables | <u>4,525.28</u>   |
|                   | <u>278,493.82</u> |

Liabilities and Net Assets

|                           |                   |
|---------------------------|-------------------|
| Net Assets - Unrestricted | 3,882.82          |
| - Permanently restricted  | <u>274,611.00</u> |
|                           | <u>278,493.82</u> |

NEW DIRECTIONS HOUSING CORPORATION  
STATEMENT OF ACTIVITIES -  
NEIGHBORHOOD REINVESTMENT CAPITAL FUND  
FOR YEAR ENDED JUNE 30, 2007

Revenue, Gains and Other Support:

|   |                   |
|---|-------------------|
| Capital Grant - Neighborhood Reinvestment | 75,000.00         |
| Interest Income                           | <u>3,882.82</u>   |
|   | 78,882.82         |
| Net Assets - Beginning of Year            | <u>199,611.00</u> |
| Net Assets - End of Year                  | <u>278,493.82</u> |

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SUPPLEMENTARY INFORMATION  
CONSOLIDATING FINANCIAL STATEMENTS

# HENSON & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS  
PROFESSIONAL LIMITED LIABILITY CORPORATION

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## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATING FINANCIAL STATEMENTS

To the Board of Directors  
New Directions Housing Corporation and Subsidiaries

Our report on our audit of the basic consolidated financial statements of New Directions Housing Corporation (a not-for-profit corporation) and Subsidiaries as of June 30, 2007 appears on pages 1 through 2. The audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying consolidating statement of financial position and consolidating statements of activities and cash flows on pages 34-36 are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements. In our opinion, the accompanying consolidating statement of financial position and consolidating statements of activities and cash flows are fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

  
HENSON & ASSOCIATES  
Certified Public Accountants

January 28, 2008

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
SCHEDULE I - CONSOLIDATING STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2007

|   | New Directions<br>Housing<br>Corporation<br>(06/30/07) | Pearson<br>Apartment<br>Company<br>(12/31/06) | Directions<br>Apartments<br>LLC<br>(06/30/07) | Russell<br>Apartments<br>LLC<br>(06/30/07) | Shawnee<br>Apartments<br>LLC<br>(06/30/07) | Eliminations<br>and<br>Adjustments | Totals               |
|---|--|---|---|--|--|------------------------------------|----------------------|
| <b>Assets</b>                               |  |   |   |  |  |                                    |                      |
| Cash  | 498,315.63   | 6,392.20                                      | 62,521.92                                     | 245,763.26                                 | 86,692.56                                  |                                    | 899,685.57           |
| Cash - Restricted by<br>Grant               | 216,780.54   |   |   |  |  |                                    | 216,780.54           |
| Receivables                                 |  |   |   |  |  |                                    |                      |
| Accounts Receivable,<br>net                 | 2,146,884.98   | 5,346.60                                      | 6,399.07                                      | 28,556.13                                  | 11,717.03                                  | (299,635.61)                       | 1,899,268.20         |
| Notes and Mortgages<br>Receivable, net      | 352,683.28   |   |   |  |  | (35,000.00)                        | 317,683.28           |
| Unconditional<br>Promises to Give           | 162,747.49   |   |   |  |  |                                    | 162,747.49           |
| Note Receivable                             |  |   |   |  |  |                                    |                      |
| Neighborworks Loans                         | 80,100.00  | 7,773.45                                      | 14,055.07                                     | 25,105.95                                  | 26,181.99                                  |                                    | 80,100.00            |
| Prepaid Expenses                            | 101,116.92   |   |   |  |  |                                    | 174,233.38           |
| Inventories                                 | 77,448.89  |   |   |  |  |                                    | 77,448.89            |
| Other Assets                                | 1,502,483.57   | 21,805.33                                     | 106,280.15                                    | 684,532.31                                 | 257,550.13                                 | 273,144.00                         | 2,845,795.49         |
| Property and Equipment                      | 6,404,752.02   | 177,860.24                                    | 2,373,455.68                                  | 5,654,017.75                               | 4,698,220.57                               | 115,555.86                         | 19,423,862.12        |
| <b>Total Assets</b>                         | <u>11,543,313.32</u>                                   | <u>219,177.82</u>                             | <u>2,562,711.89</u>                           | <u>6,637,975.40</u>                        | <u>5,080,362.28</u>                        | <u>54,064.25</u>                   | <u>26,097,604.96</u> |
| <b>Liabilities</b>                          |  |   |   |  |  |                                    |                      |
| Accounts Payable                            | 144,820.35   | 43,431.94                                     | 19,315.39                                     | 29,561.46                                  | 33,250.20                                  | (110,099.81)                       | 160,279.53           |
| Accrued Expenses                            | 847,882.50   | 11,743.54                                     | 69,112.70                                     | 231,844.93                                 | 146,272.00                                 | (42,060.00)                        | 1,264,795.67         |
| Deferred Revenue                            | 19,848.96  | 463.85  | 905.50  | 2,366.79                                   | 2,750.49                                   |                                    | 26,335.59            |
| Short Term Debt                             | 2,274,060.62   |   |   |  |  |                                    | 2,274,060.62         |
| Deposits                                    | 26,561.00  | 2,308.00                                      | 9,104.00                                      | 23,042.00                                  | 17,070.28                                  |                                    | 78,085.28            |
| Long Term Debt                              | 4,202,956.90   | 160,931.74                                    | 2,619,576.90                                  | 6,546,454.23                               | 4,951,223.37                               | (182,475.80)                       | 18,306,667.34        |
| Distributions Payable                       |  | 40,839.38                                     |   |  |  |                                    | 40,839.38            |
| <b>Total Liabilities</b>                    | <u>7,516,130.33</u>                                    | <u>267,718.45</u>                             | <u>2,718,014.49</u>                           | <u>6,833,269.41</u>                        | <u>5,150,566.34</u>                        | <u>(334,635.61)</u>                | <u>22,151,063.41</u> |
| <b>Net Assets</b>                           |  |   |   |  |  |                                    |                      |
| Unrestricted                                | 3,587,594.32   | (48,540.63)                                   | (155,302.60)                                  | (195,294.01)                               | (70,204.06)                                | 388,699.86                         | 3,506,952.88         |
| Temporarily Restricted                      | 164,977.67   |   |   |  |  |                                    | 164,977.67           |
| Permanently Restricted                      | 274,611.00   |   |   |  |  |                                    | 274,611.00           |
| <b>Total Liabilities<br/>and Net Assets</b> | <u>4,027,182.99</u>                                    | <u>(48,540.63)</u>                            | <u>(155,302.60)</u>                           | <u>(195,294.01)</u>                        | <u>(70,204.06)</u>                         | <u>388,699.86</u>                  | <u>3,946,541.55</u>  |
|   |  | <u>219,177.82</u>                             | <u>2,562,711.89</u>                           | <u>6,637,975.40</u>                        | <u>5,080,362.28</u>                        | <u>54,064.25</u>                   | <u>26,097,604.96</u> |

See Notes to Financial Statements.

NEW DIRECTIONS HOUSING CORPORATION AND SUBSIDIARIES  
SCHEDULE II - CONSOLIDATING STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

|  | New Directions<br>Housing<br>Corporation<br>(06/30/07) | Pearson<br>Apartments<br>Company<br>(12/31/06) | Directions<br>Apartments<br>LLC<br>(05/30/07) | Russell<br>Apartments<br>LLC<br>(06/30/07) | Shawnee<br>Apartments<br>LLC<br>(06/30/07) | Eliminations<br>and<br>Adjustments | Totals              |
|--|--|--|---|--|--|------------------------------------|---------------------|
| Revenues, Gains and Other Support          |  |  |   |  |  |                                    |                     |
| Contributions                              | 135,660.10   |  |   |  |  |                                    | 135,660.10          |
| Rent Income                                | 1,009,312.18   | 238,785.38                                     | 713,971.63                                    | 1,286,853.33                               | 1,239,826.50                               |                                    | 4,488,749.02        |
| Grant Income - Operations                  | 1,919,979.55   |  |   |  |  |                                    | 1,919,979.55        |
| Maintenance, Management<br>and Other Fees  | 1,857,108.82   |  |   |  |  | (909,688.47)                       | 947,420.35          |
| Interest Income                            | 41,803.21  | 106.22   | 291.26  | 8,324.17                                   | 376.07                                     |                                    | 50,900.93           |
| Miscellaneous                              | <u>127,353.08</u>                                      | <u>26,364.49</u>                               | <u>50,239.84</u>                              | <u>115,145.40</u>                          | <u>172,635.21</u>                          | <u>(81,518.71)</u>                 | <u>410,219.31</u>   |
| Total Revenues, Gains and<br>Other Support | 5,091,216.94   | 265,256.09                                     | 764,502.73                                    | 1,410,322.90                               | 1,412,837.78                               | (991,207.18)                       | 7,952,929.26        |
| Expenses                                   |  |  |   |  |  |                                    |                     |
| Program Services                           | 4,908,650.10   | 246,840.31                                     | 762,059.55                                    | 1,434,652.59                               | 1,321,630.38                               | (909,688.47)                       | 7,764,144.46        |
| Supporting Services                        |  |  |   |  |  |                                    |                     |
| Management and General                     | 594,650.50   |  |   |  |  |                                    | 594,650.50          |
| Fundraising                                | <u>46,966.36</u>                                       |  |   |  |  |                                    | <u>46,966.36</u>    |
| Total Expenses                             | <u>5,550,266.96</u>                                    | <u>246,840.31</u>                              | <u>762,059.55</u>                             | <u>1,434,652.59</u>                        | <u>1,321,630.38</u>                        | <u>(909,688.47)</u>                | <u>8,405,761.32</u> |
| Increase (Decrease) in<br>Net Assets       | (459,050.02)   | 18,415.78                                      | 2,443.18                                      | (24,329.69)                                | 91,207.40                                  | (81,518.71)                        | (452,832.06)        |
| Less: Distributions                        |  | (3,600.00)                                     |   |  |  | 2,520.00                           | (1,080.00)          |
| Beginning Net Assets                       | <u>4,486,233.01</u>                                    | <u>(63,356.41)</u>                             | <u>(157,745.78)</u>                           | <u>(170,964.32)</u>                        | <u>(161,411.46)</u>                        | <u>467,698.57</u>                  | <u>4,400,453.61</u> |
| Ending Net Assets                          | <u>4,027,182.99</u>                                    | <u>(48,540.63)</u>                             | <u>(155,302.60)</u>                           | <u>(195,294.01)</u>                        | <u>(70,204.06)</u>                         | <u>388,699.86</u>                  | <u>3,946,541.55</u> |

See Notes to Financial Statements.

