New Directions
Housing Corporation

2014 Operational Plan and
Fiscal Year 2013 Progress Report

1000 East Liberty Street
Louisville, Kentucky 40204-1029

www.ndhc.org
502-589-2272
Part I: FY2013 Progress Report and Performance Update
Assessment of Agency Progress

Introduction
New Directions Housing Corporation (NDHC) strengthens civic and volunteer participation to challenge the forces that undermine neighborhood and family stability. The not-for-profit agency was created in 1969 through ecumenical efforts centered at Saint William Church, a Roman Catholic congregation at 13th and Oak streets in Louisville, Kentucky. The story began when then pastor, Father Ben O’Connor, ended a verbal account of his neighborhood’s challenges with the declaration: “I don’t know what we do, but we have to find a new direction!” The agency was incorporated as a non-profit in April 1971, receiving IRS 501(C)3 status in October 1972.

Founders understood the formidable necessity of safe, accessible and affordable housing as a foundation for the critical connection between safe neighborhoods and strong families. Original goals emerged from reactions to the community’s pain of racial disparity, failing neighborhood economies, the ravages of urban renewal and the despair of families in need. NDHC has expanded regionally to a three-county service area, encompassing Jefferson County, Kentucky and the Southern Indiana counties of Floyd and Clark. We are one of Kentucky’s largest private, not-for-profit housing providers, offering integrated services in regional real estate development, asset and property management, home ownership preservation, resident services and community building and organizing. We are members of the NeighborWorks® America network and our regional Metro United Way.

Our mission is to develop and maintain affordable housing and help to create vital communities in partnership with neighborhoods and other stakeholders. At the core of the agency’s programs is a dynamic board recruited to represent the community’s strengths and needs. Volunteerism greatly leverages program production, too. In six years ending 2013, our volunteers gave 87,000 hours with an average of 1,500 volunteers annually. New Directions has the capacity to recruit and organize resources to make important differences. Families enriched by the agency’s supportive services are better able to find employment, maintain permanent housing and make progress financially.

The delivery of safe, affordable housing is a keystone to family and neighborhood stability. NDHC enlists diverse resources, maximizing community outcomes and regional connections. New Directions is engaged in major strategies to meet these challenges, in collaboration with our tri-county region’s neighborhood groups and other community development service providers. Experience in housing development, supportive services delivery and grassroots volunteer mobilization gives us a unique perspective in the recruitment of community resources.

Factors that influenced the implementation of FY13 Strategic and Operating Plan
Market conditions are reviewed in detail in Part II. Challenges overcome in the current fiscal year are numerous. Our eye is on providing quality program delivery but also on strengthening our agency’s core systems, facilitating board participation in resource development using new tools and preparing for an epic transition in three years as Joe Glessner, our respected CEO, prepares for retirement.

Challenges and opportunities
Since 2008, the challenge of Portfolio Strengthening has caused us to create unique solutions to property dilemmas, from a HAP transfer to take a flooding building off line, to fishing for Louisville's only NSP3 funding to cure vacancy at two obsolete buildings within the Historic Parkland portfolio. This scrappy funding environment tasks us with a multitude of small projects that may line us up for the larger ones. Suddenly, there is a large LIHTC application in the works (a titanic of a “macro” project on the horizon that can change the agency’s financial fundamentals.) We invest a lot of energy in information gathering—not for funders or media, but for our own curiosity and strategic direction. Thanks to Business Strengthening (both I and II) we have access to demographic data from both our internal and external environments that are causing us to rethink tactical reactions in service to residents and community.

Environmental and market conditions
DEMographics—Louisville Magazine, Leadership Louisville and The Greater Louisville Project have newly discovered the inequities of our city’s divides around wealth, opportunity, education and health.

For more information, contact Joseph E. Glessner, Jr., CEO, 502.719.7199
Lisa Thompson, COO, 502.719.7106 * Gerald Tyrrell, CFO, 502-719-7116

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Strengthening tactics described in detail in Parts II and III of this report. We have gotten full benefit from By-Law revisions that enabled nimble actions by the nine-member Executive Committee. The Chief Executive Officer has instituted an Executive Operating Committee to include Chief Operating and Financial officers and together they review policy, potential conflicts of interest, budgeting procedure and strategic direction. In Real Estate Development, leadership is dovetailed as the current Director reaches retirement and the new Director is already in place. David Fannin joined New Directions in mid 2013 and immediately packaged the New Russell Apartments projects for LIHTC award consideration. We navigated both positive and contentious media and political change to guide our Midtown Neighborhood Stabilization and Owner-Occupied Rehabilitation programs to successful Phase I conclusions. Resident Services is reorganized and is expanding urban gardens, curricula and volunteerism. The board launched a robust individual gifts program which reaches its climax in November with a major Ask Event. The agency is maximizing external opportunities, building capacities and preparing for major change as federal systems become unpredictable and as our mission’s gravity and stewardship grow ever more important.

Lines of Business/Major Activities that impact organizational liquidity
Residential Properties are our major cash generator. Our portfolio of 21 operating properties now contains only two properties with negative cash flow. Both were strategically addressed by 2013 Asset Management Action Plans.

Real Estate Development Activity has secured results in both multifamily and single family work. Single-family development has been robust. US HUD NSP1 revitalization grants have supported a four-year development initiative producing for-sale homes in both Louisville, KY and New Albany, IN. Deep cash subsidy drives risk-free development generating significant developer fees for operations. Other current multi-family developments are mostly break-even activities. RED activity has an inconsistent annual cash effect on the organization. Two properties, Wellspring Tonini, 12 units, and Woodbourne House, 11 units, yield modest fee income and attractive developer fees. Both are high-quality additions to the city’s supply of fine affordable housing.

Lines of Business/Major Activities that New Directions regularly supports through income investment include Home Ownership Preservation (HOP), Resident Services (RS) and Community Building and Organizing (CB&O). All of these activities are in high demand and considered essential to our core mission and future growth, but are constrained as to what we can resource with fee income, grants, contributions and agency resources.

- Home Ownership Preservation, including Repair Affair, is typically supported by public grant income, which covers only a limited amount of allocated overhead. It is the incubator for Real Estate Development activity, including Neighborhood Stabilization work in Louisville.
- Resident Services programming is primarily funded by Metro United Way and HUD grants and partially matched by the portfolio’s cash waterfalls.
- Community Building & Organizing at New Directions includes strategic neighborhood focus work in the contiguous Smoketown & Shelby Park neighborhoods, the Portland Pride partnership, and extensive work in Midtown, New Albany. The low-cost Neighborhood Roundtable is funded by New Directions, NeighborWorks and private philanthropy with restricted grants.

These programs bring us real estate development business, and make us relevant to city and state administrations. They embody the mission, and often are able to mitigate bottom line impact through grants and small fees. Recasting these programs for greater fee or funding effect would enable the agency to expand their needed impact.

Business Strengthening
New Directions represents the Southern District in the Business Strengthening cohort sponsored by NeighborWorks® America to move beyond our successful Portfolio Strengthening strategy to structure a dynamic design for a sustainable future of service to Louisville, Kentucky and Southern Indiana. Business Strengthening coaches identify and assist historically high-performing organizations by working with them through a cohort-based training program to develop a roadmap for the future. With each agency, work to adapt their business model to new economic realities and develop a revised business strategy that will sustain their organization and the impact they have in their communities for years to come.
Progress report and quantified results

Goals met, not met and why

2013 Asset and Property Management Results

The mission of the Property Management Department is to provide quality, safe and affordable housing to our residents and their neighboring communities through courteous and timely service by our team of professionals. The agency has a purposeful perspective on Asset Management, an executive management function focused on the acquisition, broad general oversight and disposition of real estate.

Five key functions have been identified to support the agency's long-term financial health. These are: oversight from predevelopment to disposition of real estate assets; continued fulfillment of the agency's mission through stewardship of the physical assets; development of key strategies including financing, design, management, monitoring and community relations; identifying key performance indicators and evaluating the performance of the management agent; and reporting findings, recommendations and conclusions to the Board of Directors.

Property Management: Nearly 1,850 residents live in 990 units under management located in Jefferson counties in Kentucky and in New Albany, Indiana. Of these units, 812 are subsidized, 178 are market rate. An additional seven units in this court are shelter units. New Directions is a member of the Multifamily National Initiative of NeighborWorks America®. New Directions annually leverages over $6.5 million in housing assistance for Kentuckiana through HUD contracts. This is critical, regionally. At present, the community is suffering from a massive shortfall in Section 8 certificates, with waiting lists of over 20,000 households in Jefferson County alone. New Directions also provides services as a third party manager, currently working with Wellspring, Inc. to manage housing for special communities using Section 811 grants and subsidies, resources from Federal Home Loan Bank of Cincinnati, Kentucky Housing Corporation and other resource development. Wellspring, Inc. is one of the foremost agency advocates for people with mental illness. A longtime developer and supportive services provider, Wellspring chooses New Directions as its manager of 48 units in five projects.

APM2013_1: Achieve an above average score on 10 percent of our properties during Kentucky Housing Corporation Management and Occupancy Review or HUD REAC (assessment of property, units and files) during fiscal year 2013.

RESULTS: This goal was not met due to the lawsuits filed in the U.S. Federal Court. The United States Department of Housing and Urban Development has agreed not to proceed with awarding the Performance Based Contract Administration (PBCA) contract until the court rules on the matter. This is still pending as of October 2013. NDHC did get outstanding HUD REAC scores, including a 100a for its Jackson Woods Apartments, LLP.

APM2013_2: Increase productivity in the maintenance department by developing and implementing a centralized model plan. This centralized plan will decrease maintenance tech staff cost by up to 25 percent and increase average work order production to a level of five per day per technician by December 2013.

RESULTS: This goal was met.

- Payroll expense reduced from $700K in 2012 to $526K in 2013; 25% cost reduction.
- Average monthly work orders have increased from 1015 to 1300
- Achieve a 100A on REAC inspection due to increased productivity and accountability of the centralized model. REAC average across two years.

Quality control, green procurement, systems efficiencies and greater speed is desired in the Property Maintenance area of the organization. We benefited from two Yardi trainings, thanks to technical assistance from NWA.

APM2013_3: Achieve and sustain a portfolio-wide occupancy rate of 97 percent for fiscal year 2013.

RESULTS: This goal was met! Current Occupancy for all units is 98.2 percent. Three projects are coming on line and are immediately occupied due to preliminary resident recruitment for Wellspring Tonini and Woodbourne House. 1227 Cypress will be done by 10/31/13 and immediately will be filled. This high occupancy rate means that over $6.5 million in valuable housing subsidy was being used by the households in greatest need because our staff was attentive, professional and efficient in turning units and prospecting for residents when vacancies did occur. Please reference the Portfolio Strengthening chart in the attached Financial Information section. Unaudited consolidated financial statements of the Agency as of June 30, 2014 reflected continued improvement as portfolio strengthening measures continue to move forward and in great part due to cost control and virtually full occupancy.

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so the CEO has petitioned the city for debt forgiveness for these, as well. In time, New Directions may attempt to acquire highly-blighted sites that negatively impact our own, or we will seek their demolition in league with other neighborhood stakeholders.

RED_MF2013_3: By December 2013, both Woodbourne House and Tonini Station construction projects shall be concluded and facilities shall have achieved certificates of occupancy for 23 units, in total.

This goal has been met. Both buildings were dedicated this summer to positive community response. At Wellspring Tonini, the financial keystone was a $1.5 million HUD Section 811 grant, a two-fold benefit supplying over half the development cost and a 40-year rental subsidy to benefit the future residents. Also essential are both national and state historic tax credits that together brought $305,214 to the project. Other sources include a $240,000 Federal Home Loan Bank of Cincinnati grant via member Stock Yards Bank and Trust, also the project’s tax credit investor. Louisville Metro Government and Kentucky Housing Corporation each provided $240,000 in federal HOME funds. Our nonprofit partner, Wellspring, provides housing and psychiatric rehabilitative services to those facing the challenges of mental illness, serving more than 600 adults each year. Already, the project has won awards for historic preservation and the art of collaboration. The new site plan includes two historic buildings and two new buildings that frame a private courtyard.

Woodbourne was more complicated. Resources assembled for the $3.1 million development include a $190,000 US HUD planning grant followed by a $1.2 million HUD Section 202 capital advance; Kentucky Historic Tax Credits and National Historic Tax Credits that yielded equity of $98,524 and $283,113 respectively; national Low Income Housing Tax Credits awarded by Kentucky Housing Corporation enabling $1,122,000 in equity investment, and grants from Louisville Metro Government ($180,000); Douglass Boulevard Christian Church ($40,000) and nearby neighbors ($13,000). Construction financing and equity investment came from Stock Yards Bank & Trust. NDHC oversaw the restoration of the Greek Revival landmark home and the construction of an annex that together provides 11 units for older persons. We will also manage the site. As part of its continuing expansion of senior services serving residents of the 40204 and 40205 areas, Highlands Community Ministries will relocate its respected Shaffer Enrichment Center to operate in the receiving room and library of the Greek Revival home. Douglass Boulevard Christian Church, which acquired the historic home and surrounding area in 1936, will continue to host the Douglass Loop Farmers’ Market on site every Saturday. This is a powerful combination of efforts!

RED_MF2013_4: The Directions Apartments Ltd. project will have completed its green charette and capital needs assessment and submission of the application for four percent credits and tax exempt bond financing shall have been completed by October 1, 2013.

RESULTS: NDHC switched its focus from Directions (166 units) to the New Russell Apartments, a 182-unit project housed in 21 scattered apartment buildings located in Louisville’s west end and its Old Louisville Neighborhood south of the central business district. We have applied for both Historic Preservation and Low Income Housing tax credits and if approved, this will be the largest LIHTC transaction in this agency’s history. Slightly in excess of $10 million will flow into a substantial rehabilitation of these units and we will contribute our existing notes due from the project in the approximate amount of $5 million. We have applied to NeighborWorks for a Capital Grant of $300,000 in order to ensure sufficient resources for temporary displacement of residents during construction. Investor funds will all go into the project rehabilitation expenses and we will have to earn our $2.5 million Developer Fee through cash flow generation of the project over a number of years. Fifth Third Bank, our primary bank, has committed to make the construction loan and Ohio Capital Corporation for Housing and Kentucky Housing Corporation will provide the tax credit investment package. Recently, we applied for a rate reduction on the existing first mortgage loan and HUD has approved an interest rate reduction from 6.25 percent to approximately 4.20 percent.

Bonus result: Brandeis/Pearson HAP Transfer was completed. Brandeis Apartments was fully occupied by late 2012 and the property developed a positive cash flow of $48,800, a vast improvement from the cash loss of $105,000 the previous year. Cash flow will continue to improve as we continue normal operations with little vacancy. As a final action in this transfer, we have completed the demolition of the Pearson property. For a part of this year we thought that a neighboring institution may want to acquire the property, but they eventually waived off. FY2013 Financials include a $411,000 write-off of the undepreciated value of the three buildings that constituted the property.

For other Multifamily Real Estate Development project updates, see Part III.

Single Family Home Development Results
RED_SF2013_1: Phase II of both Midtown and Shelby Park single family home development shall have been completed with up to 15 additional units produced and occupied as part of robust community stabilization activities.

RESULTS: These goals were met. New Directions has completed construction and sale of six contiguous NSPI homes on East Saint Catherine Street in Louisville, a project enriched with Success Measures / Community Impact measurement process, a great neighborhood association, a chance to remove tremendous blight and—a bonus, just two blocks away are our Jackson Woods and Smokeytown multifamily complexes and both have been recently renovated to aid in the revitalization and to ensure long term preservation. Board and staff have close relationships within the neighborhood, and its leadership has just committed a $50,000, two-year loan agreement with us. In a surprise move, Louisville Metro paused our use of NSPI proceeds for House #6 and instead gave us the last of their NSPI original grant funds. This means that we will be able to leverage another two homes for Shelby Park, and the search for these sites is happening now.

NDHC wrapped up the dramatic first phase of its NSPI project in New Albany’s Midtown Neighborhood. In the last 15 months, 22 homes were sold at an average price of $73,772.73 and an average incentive subsidy of $31,445.92 to facilitate underwriting. We built the last seven homes for a cost of $5,445,527 and created a beautifully designed pocket park and urban garden (removing a wretched, broken house) for double benefit. It is interesting that over $1 million in actual household income has been added to the neighborhood. Total home buyer subsidy amount contributed by NSPI was almost matched dollar for dollar by the homebuyers. ($283,000 vs. $279,000) Home buyers obtained almost

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Hop2013_2: Repair Affair will coordinate at least 40 volunteers home repair teams on the Louisville-Jefferson County Repair Affair Event Day, and at least 20 volunteer teams on the Southern Indiana Repair Event Day. These events will occur in mid June 2012 during NeighborWorks Week.

RESULTS: For its 20th Anniversary, Repair Affair organized 11 teams who worked on its first Saturday in Southern Indiana and 29 teams who worked on the event day in Louisville. Both activities and events and those teams, together with another 20 teams who had worked earlier that month brought us to 60 homes done of the 150 we intend to serve before fall 2013. That second Saturday, June 15, 2013 at 7:30 a.m. started with 500 volunteer check-in and The Breakfast of Champions. At 8 a.m., we have a very special agenda featuring Congressman John Yarmuth and Mayor Greg Fischer joined by Marshall Crawford from NeighborWorks.

HOP2013_3: By June 2012, Home Ownership Preservation will update NDHC Rehabilitation Specifications & Standards to include “Green Specifications & Standards” and will create and implement a post rehabilitation toolkit for assisted homeowners.

RESULTS: A Green Improvements Checklist was created in lieu of a stand-alone “Green Specifications & Standards.” The checklist consists of green techniques that at low cost can be incorporated into many typical home repair and rehab construction projects. LG&E donated to HOP Energy Saving Tips folders that are given to all assisted homeowners. HOP Interns Daniel Meyers and Sydney Shea worked to develop a 10 page post-rehab “Green Guide.”

HOP2013_4: Home Ownership Preservation will provide a welcoming and productive environment for interns and volunteers, including VISTA and AmeriCorps volunteers or others in national service, offering opportunities for learning, community service and personal growth.

Between July 1, 2011 – June 30, 2012 Home Ownership Preservation welcomed two college interns and two National service volunteers as staff support for various programs including Repair Affair, City of New Albany Emergency Repair Program, Midtown Owner-Occupied Rehab Program, and the Portland NRSA Home Rehab Program

HOP2013_Bonuses:
Midtown Owner-Occupied Rehabilitation Program celebrates that 14 homeowners enrolled in neighborhood association.
HOP notes that media covered two events, a Mayor’s press conference and other positive publicity hits for New Directions this year.

2013 Community Building and Organizing Results

New Directions CB&O programs include The Neighborhood Roundtable and the Annual Louisville Neighborhoods Property Report; The Smoketown and Shelby Park Neighborhood Revitalization Plan; Midtown Renaissance and a neighborhood’s marketing plan; and Portland Neighborhood, NRSA and collaboration with Habitat for Humanity of Metro Louisville. This is a regional program with activities in Jefferson County, Kentucky and Floyd and Clark counties in Southern Indiana.

Our work in Community Building and Organizing is purposeful, yet diverse. The agency’s Chief Executive Officer and Chief Operating Officer work to influence policy changes and to ensure that resources garnered by these changes are getting to the neighborhoods to make impact. At the core of our work is the work we do with grassroots leaders and stakeholders to strengthen neighborhood-based organizations and increase citizen participation in community stabilization and revitalization. Thanks to united efforts neighborhoods have obtained new resources, and with NeighborWorks America, have the technical capacities to implement capital strategies to achieve their goals. Strategies have moved with assurance to link with neighborhood leadership across western Louisville and in Midtown, New Albany to implement plans in neighborhood housing quality by deploying precious public funding.

The Annual Property Report is a key agency partnership with Roundtable leaders and the Louisville Metro Government’s Department of Codes and Regulations to target property problems for code enforcement and sometimes, for action as drastic as demolition to remove blight. Continuous peer sharing and information is in play, to ensure that grassroots leaders are informed and ready for advocacy, legislative change and volunteerism in the areas that matter to them most. For example, New Directions is a leadership cadre of local intermediaries exploring Green Initiatives in neighborhoods. With others, we are seeking solutions and appropriate systems that link green thinking to food security and environmental justice. More program priorities like these are also moving forward, thanks to NeighborWorks America and other loyal donors. Community Leadership Institute helps us to provide access to the most progressive thinking and to fresh research.

CB&O STATED GOALS AND RESULTS

CBO2013_1: Continue the impact of the Neighborhood Roundtable by convening at least six meetings in FY13 and publishing the annual Property Assessment Report for Louisville Metro Government’s implementation and code enforcement.

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During the fiscal year, this line of business experienced great successes despite the loss of co-leader Tracy Williams to cancer in fall 2012. Under the compassionate leadership of Resident Services Director Amanda “Amy” Sneed, the three programs delivered the following outcomes:

**RS GOALS AND 2013 RESULTS**

- 347 families were served by Service Coordination services, typically with interventions for utility invoice or breach support. Many interventions linked residents to health services.
- An additional 34 adult resident head-of-households were served by the Help Line.
- Transitional Services served 25 homeless single-parent families and 53 dependent children.
- 186 children served in the four neighborhood Learning Centers; of them, 46 lived in New Directions rental housing.
- 71 Learning Center volunteers came from many backgrounds. (Six were NDHC residents, but the others came from organizations such as Cross Roads and parents and siblings of the learning center kids from the surrounding neighborhood. Some were from local high school doing senior service.)
- 75 volunteers assisted our older residents at Saint William, Saint John and Shawnee Apartments and of them, 12 were residents.

**Service Coordination – Strong networking and referrals to maximize resident strengths**

Resident Services and Property Management are aligning to create a referral process to go beyond emergency or one-time interventions. Creating a culture of communication is becoming second nature to all that have contact with residents living in portfolio housing. Families living in the shelter at Heverin House receive case management with some service experiences that can be operationalized for the additional 16 properties owned and managed by New Directions. **Learning Center programming** for youth had an amazing year, with a new partnership blossoming in the California Neighborhood at Brandeis Apartments. Combined children’s summer programs brought almost 200 neighborhood children together to share the garden and enjoy out of town educational field trips.

**Volunteering and civic engagement** is a growth area in the portfolio. Only 18 of 146 Resident Services volunteers came from the community itself. Volunteer recruitment and coordination is a major emphasis to leverage precious private and agency funding. **Gardens at Brandeis and Saint William Apartments** are considered some of the most progressive in West Louisville. Volunteer Master Gardeners are making a difference as residents recall what they know to make the soil productive. This pleasant activity is important for our residents whose average monthly income (with two children) rarely exceeds $525. Stretching budgets is a goal—and we have only two gardens with 32 beds. This is an expanding area of interest for New Directions.

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New Directions Housing Corporation (Louisville, Kentucky) was founded in 1969 and has since evolved into a community-based development organization offering excellence in Real Estate Development, Asset and Property Management, Resident Services, Home Ownership Preservation and Community building & Organizing. New Directions is a participant in both the NeighborWorks® America network and Louisville Metro United Way. New Directions is committed to neighborhood capacity building, family self-sufficiency and regional community development. Its locally recruited board of directors represents diversity in experience and background. New Directions owns and manages the following local properties and further provides third-party property management for the nonprofit WellSpring, Inc., and its housing properties here listed:

<table>
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<tr>
<th>Property</th>
<th>Address</th>
<th>Neighborhood</th>
<th>Units</th>
<th>Owner</th>
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<tbody>
<tr>
<td>Brandie Apts.</td>
<td>925 26th St. 40219</td>
<td>California / Parkland</td>
<td>50</td>
<td>NDHC</td>
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<tr>
<td>Clifton Court Apts.</td>
<td>1810 Frankfort Ave. 40208</td>
<td>Clifton</td>
<td>14</td>
<td>NDHC</td>
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<td>Directions</td>
<td>446, 448 Amy, 3714, 4540 W. Broadway, 4404, 4408 Del Park, 630 S. 44th, 1378 S. Floyd, 3135, 3442-44 W. Muhammad Ali, 4529 W. Market, 7001-03 S. 2nd, 124, 129 W. Kentucky, 5371-41 S. 34th, 402 S. 38th</td>
<td></td>
<td>NDHC</td>
<td></td>
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<tr>
<td>Heverin House, a long-term transitional shelter for homeless families</td>
<td>1706 Rowan 40203</td>
<td>Shelby Park</td>
<td>7</td>
<td>NDHC</td>
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<tr>
<td>Jackson Woods Apts.</td>
<td>1028 S. Jackson St. 40203</td>
<td>Shelby Park</td>
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<td>NDHC</td>
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<td>O'Connor Square Apts.</td>
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<td>NDHC</td>
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<tr>
<td>Roosevelt Apts.</td>
<td>220-224 N. 17th St. 40203 (Office 220 N 17th St.)</td>
<td>Old Louisville</td>
<td>54</td>
<td>NDHC</td>
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<td>Scattered Sites Apts.</td>
<td>1306 Cypress 40211</td>
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<td>NDHC</td>
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<td>Smoketown Apts.</td>
<td>1110 S. Preston St. 40203</td>
<td>Parkland</td>
<td>16</td>
<td>NDHC</td>
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<tr>
<td>St. Edward Court</td>
<td>701 E. Spring St. New Albany, IN 47150 (near Louisville)</td>
<td>Parkland</td>
<td>56</td>
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<tr>
<td>St. John Gardens Apts.</td>
<td>706 E. Muhammad Ali 40202</td>
<td>Phoenix Hill</td>
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<td>Woodbourne House</td>
<td>2024 Woodford Avenue. 40205</td>
<td>Highlands</td>
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<tr>
<td>St. William Apts.</td>
<td>1127-1157 S. 17th St. 40210</td>
<td>California</td>
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<td>NDHC</td>
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| Units Owned and Project Based | 741 |
| Total Owned and Tenant Based | 178 |
| TOTAL OWNED | 930 |

**MANAGED ONLY for the nonprofit WellSpring, Inc.**

<table>
<thead>
<tr>
<th>Property</th>
<th>Address</th>
<th>Owner</th>
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<tr>
<td>Armity Apts.</td>
<td>1782 Dixdale 40210</td>
<td>Algonquin</td>
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<td>Patrick Henry Apts.</td>
<td>7330 Patrick Henry Rd. 40214</td>
<td>Fairdale</td>
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<td>Wellspring Bridge</td>
<td>111-117 W Kentucky, 40203</td>
<td>Old Louisville</td>
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<td>Wellspring Apts.</td>
<td>846 S. 36th St. 40203</td>
<td>Phoenix Hill</td>
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<td>Welling Apts**</td>
<td>1234 Shelby Street (NDHC has ownership position til 2018)</td>
<td>Phoenix Hill</td>
</tr>
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**TOTAL MANAGED AND PROJECT BASED (100%)**

| TOTAL MANAGED AND TENANT BASED (0%) | 0 |
| TOTAL MANAGED | 60 |

**TOTAL PORTFOLIO**

| TOTAL PORTFOLIO PROJECT BASED | 812 |
| TOTAL PORTFOLIO TENANT BASED | 178 |
| TOTAL PROPERTY MANAGEMENT PORTFOLIO | 999 |

Last Updated: 10/17/2013
Part II. FY2014 Production and Performance Targets

Goals for Agency Progress

Introduction

New Directions Housing Corporation (NDHC) was founded in 1969 and has since evolved into a community-based development organization offering excellence in Real Estate Development, Asset and Property Management, Resident Services, Home Ownership Preservation and Community Building & Organizing. New Directions is part of the NeighborWorks® America network and Metro United Way agency. New Directions is committed to neighborhood capacity building, family self-sufficiency and regional community development. Its locally recruited board of directors represents diversity in experience and background. New Directions owns and manages 17 residential partnerships, including a transitional shelter, and further provides third-party property management for the nonprofit Wellspring, Inc. for its five housing properties. Together, New Directions manages 990 units, of which 812 units are subsidized and the remaining 178 units are market rate. Subsidies bring over $6.5 million to Louisville annually, making it second only to local housing authorities in its capacities to serve households of very low income. This is a boon to Kentucky where the poverty rate has grown 28 percent from 2002 to 2011. Since 1993, Kentucky has had the 6th highest growth in income inequality of all US States. The lowest quintile of households saw their incomes go up by 6.9 percent from the mid 1980s to the mid 2000s, while the top quintile’s income went up 41 percent (before inflation). Inequities in education, health and financial empowerment are understood to be a major barrier to our region’s potential for prosperity and municipal leadership is rallying to marshal assets to make a difference. (See www.greaterlouisvilleproject.org for latest metrics.)

New Directions is particularly positioned to help. This is a traditional community development corporation often chosen by partners for collaborative efforts that impact neighborhood strategies. We make positive changes happen that strengthen families and create and preserve needed affordable housing. Our housing and services are located where the need is, and agency capacities and collaborative are at the ready.

Scanning the organizational operating environment

Forecasting expectations and issues that New Directions board and executive staff leaders can anticipate is tough to do in an environment of sequestration, fiscal cliffs and government shutdowns. Louisville is a unique city with almost unparalleled concentrations of poverty for an American city of its size. This is a tough environment in which to make housing—rental or home ownership—viable for people of low or moderate income. In this thin financial atmosphere, New Directions has been a survivor. Its strategies bring hope and opportunity to strengthen families, to create and sustain housing and to engage communities to work together toward revitalization.

The External Environment

Housing markets: Social conditions directly relate to Louisville’s real estate potential

Louisville’s unemployment rate is now higher than U.S. average as housing prices rise. Mortgage blogger Mike Foster writes on October 2, 2013 that while more Americans are finding work across the country in 2013, Louisville workers remain in a tight spot. In July 2013, a total of 592,200 people were employed in the city, with an unemployment rate of 8.2 percent — higher than the national unemployment rate of 7.3 percent. This is down just a bit from April’s 8.3 percent but a disappointing reversal from the 7.8 unemployment level that Louisville had achieved by May 24, 2012. While America’s unemployment rate has steadily declined almost every month in 2013, there are fewer and fewer jobs available in the Louisville area. Additionally, poverty is on the rise both in the city and statewide. According to an article in the Courier-Journal, wages in the city continue to fall, and remain below their peak in 2008. More than 20 percent of Jefferson County families with young children live below the poverty line, and 16.1 percent of the county’s residents are on food stamps.

Last year, 19.4 percent of Kentucky residents lived below the poverty line; it was 17.3 percent in 2008. Kentucky is

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now the third-poorest state in the nation. The growth in poverty, decline in wages and difficulty in finding employment is hitting high school graduates much harder than university grads, Ron Crouch of the Kentucky Education and Workforce Development Cabinet told the Courier-Journal. “Those with a lack of education are doing much worse in the economy,” he said, adding that people with a college degree are “much less likely to be unemployed.” Louisville Magazine featured an economic comparison of our city’s depressed West End which has gotten traction, and Leadership Louisville will convene its Bingham Fellows to bring focus to Louisville’s greatest challenge and sorrow—its divisive, inequitable patterns of housing, health, racial barriers and unequal opportunity.

**Housing Prices Don’t Help the Local Economy**

Though Federal efforts to stimulate local economies have already translated into rising home prices, these are not yet having a positive impact on employment or wages in the Louisville area. In fact, the home-price-to-median-income ratio has worsened in recent months, as it becomes harder and harder for families to afford to buy a house. According to the real estate site Zillow.com, home prices in Louisville rose 11.1 percent year-over-year in August 2013, with the average home costing $89,400 in the Louisville area. Louisville has seen home prices rise steadily throughout 2013, and a house in the city is now more expensive than in 2008, when the average price was less than $88,000. This means that it takes more of a worker’s income to pay for a house in the metropolitan area. The average hourly wage in Louisville in July 2013 is $19.10, down from the previous month.

With higher home prices and falling incomes, this means it will take longer for a worker in the area to pay off a mortgage — and with the risk of becoming unemployed higher than ever, more and more workers will stay on the sidelines and rent, especially if home prices keep rising. If homes get more expensive and incomes continue to fall, it will also become harder for Louisville’s struggling families to afford the higher down payments that banks are requiring in post-crash America. Some local banks and credit unions are trying to combat this by offering assistance with down payments, and FHA loans are still available on some properties with down payments as low as 3.5 percent. However, for many residents of the city, rising unemployment and falling wages make the dream of homeownership increasingly unimaginable.

**Public policies**

New Directions service district includes Jefferson County, Kentucky and Floyd and Clark counties in Southern Indiana. Local and state policies that most impact the agency are those of Kentucky and in the localities of Louisville and The City of New Albany, the county seat of Floyd County, Indiana. Unintended consequences of federal, local and state policies often have immediate impact on how our agency can deliver consistent and operationally efficient community development and social services. To temper this, New Directions actively engages in forums that can influence these factors. Its leadership provides data and other forms of feedback to key decision makers so that their actions can be more fully informed.

**New Directions policies balance two strategic priorities.** The first is The Neighborhood Challenge which calls staff and volunteers to the mission to create and maintain affordable housing and vital neighborhoods in partnership with residents and other stakeholders, especially in neighborhoods where all lines of business are active. Recent areas of aligned strategic focus are Louisville’s Smoketown and Shelby Park area, Portland and California as well as Midtown Neighborhood in New Albany. The second priority is the Organizational Strengthening Challenge which ensures that the agency maintains standards as a high performing community development corporation with a focus on service enriched rental housing and neighborhood revitalization. New Directions will have a well-trained staff that is success and outcome oriented for maximum internal and external collaboration in support of its mission. As well, the agency will benefit from a fully aligned board which is informed and actively engaged with the mission and strategic direction of the organization. Resource development from fee income, grants and contributions as well as selective financing partnerships must support the agency’s capacities to ensure that our community may depend on the agency’s service. In the last seven years, the agency has aggressively sought resource to financially strengthen its rental portfolio and to respond to neighborhood capital revitalization plans at the invitation of grassroots leaders. Public funding policies and conditions, unfortunately, a mismatch to demographics and our understanding of what is needed for strategic program impact—focus, targeting and collaboration with aligned strategies.
LIHTC and Kentucky’s Qualified Action Plan: The single most influential factor in state policy unfortunately limits agency access to an important development tool—Low Income Housing Tax Credits. How they are competitively awarded is determined by Kentucky Housing Corporation through the Qualified Action Plan.

This is significant. New Directions and its Portfolio Strengthening Plan seek to preserve and redevelop its highly valuable subsidy-supported portfolio. These future partnerships attract premium equity investors. KHC advanced a competitive funding process that this year prioritized the allocation of 2013 credits in 2012 to maximize use of the nine percent fixed credit factor which expires on December 30, 2013. KHC allocated 60 percent of the 2013 credits to new construction and adaptive reuse projects applying in 2012. This was not favorable to New Directions redevelopment pipeline projects like New Russell Apartments Ltd or other large subsidized partnerships that would be attractive to syndicators for equity investment. Our LIHTC application is pending.

Federal housing tax credits, awarded based on state population, is a powerful economic driver which creates construction jobs and produces or preserves high-quality housing as equity investors present themselves. What is alternately available rather that competitively awarded nine percent credits are four percent credits. This slices in half the capital available to recondition nearly 182 units and will cause us to seek mortgage debt to cover costs, thereby hampering the project’s assurance of fiscal vitality and constraining cash flow to the agency.

New Directions will continue its government relations through CFO Joe Gliessner’s appointment to the Governor’s Housing Advisory Council to again advance the importance of recapitalizing Kentucky’s aging subsidized housing let HUD in time extract that resource due to facility conditions.

**Competition for reduced federal entitlement funding allocated by city governments:** Access to local Louisville Metro federal entitlement funding is constrained by the city’s focus on two downtown HOPE VI developments which required set-aside LIHTC from the state housing finance agency and infusions of CDBG and HOME. The city’s closest partner is its own housing authority which is adamant for redevelopment of obsolete facilities while retaining and preserving its housing subsidies. As an overlay, we consider the ongoing challenges presented by the federal deficit and potential impacts should sequestration continue. Policy factors impacting New Directions and other community development corporations are not always obvious. Given this region’s dependence on federal entitlement funds for advancement in housing and neighborhood development, federal cutbacks are injurious to essential programs. Public budget innovations often bring our thrifty agency new partners or opportunities.

Federal entitlements like Community Development Block Grant and HOME funds are provided to states and cities by population-guided formula. Louisville receives both CDBG and HOME funds; New Albany, Indiana receives only CDBG funds. The constraint and competition for these two cities’ precious entitlement funding causes New Directions to cautiously grow its Real Estate Development and Home Ownership Preservation staff infrastructure.

**The competition is fierce!** The largest competitors for these funds are the “donors” themselves. In the last 15 years, Louisville Metro has secured seven HOPE VI grants for three massive housing authority properties—each in such poor condition that only complete redevelopment was feasible. Massive environmental waste and remediation unprecedented in Louisville conservatively hovers at nearly $900 million. HOME, tax credits, CDBG, prioritized foundation support, investor attention and general fund resources have supplemented HOPE VI allocations by a factor of $17 to $1. Barracks-style cinder block housing is giving way to something better—but at tremendous cost. Service programs once supported by CDBG are reduced or eliminated. Capital repair/rehab programs and other mainstays of home ownership preservation are challenged as are multifamily housing preservation and new development. We have experienced the silver linings behind some of these economic clouds. New Directions and The Housing Partnership, by far, do not get the choice cut of local entitlement funding. Even so, New Directions has made itself relevant by being a preferred nonprofit partner of two local cities.

**Financial markets**
The big benefit in the current financial market is in seizing opportunities in long-term underwriting to benefit from historically low interest rates. At New Directions, this is an important tool for Portfolio Strengthening and is to be used with the New Russell Apartments redevelopment. In fact, Red Capital has been approved by HUD to reduce the Russell first mortgage rate by 2.0 percent which improves cash flow in current and future operations. We seek new lending partners in order to secure additional options in short-term credit facilities ranging from traditional lines.
of credit with banking institutions to program related investment with foundations and other potential investors. Finally, there are new opportunities suddenly springing from the desire of some investors seeking early exits from LIHTC projects or from market niches like New Albany where limited single-family home development may be feasible. Capital from feasible lending partners is essential to act on such opportunities.

**Changing evaluation of depreciation in equity partnerships:** Our awareness of changing investor interest in established tax credit partnerships occurred 18 months ago as the second Low Income Housing Tax Credit disposition was reaching its conclusion. Our bank partner inquired if we would seek early disposition or assignment of the partnership that created Saint Edward Apartments. An acquired benefit in such an arrangement would be the acquisition of the partnership by the nonprofit agency which would make the property operation tax exempt—eventually a savings of $75,000 annually on project that annual requires agency subsidy. Depreciation has a spectrum of value now to investors. For some, especially publically traded investors, there may be more interest in keeping earnings high rather than the previous interest in tax shelter. The point is that the motivations behind aspects of investment are changing and more communication about what potential investors want is important.

**Performance impact**

New Directions has achieved another year of financial traction, in addition to community level impact. Discussed in greater detail in Part III, **unaudited consolidated financial statements of the Agency as of June 30, 2013 reflected continued improvement with a very conservative net revenue of $345,600 on revenue of $11,500,000.** These numbers reflected only the properties and transactions that our auditors are finished with.

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<td>Revenue</td>
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<td>Earnings</td>
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This chart is included because it is consistent with previous years.

Our Line of Business Financial Report, included in this package, is probably closer to where our final audited numbers will come in. We believe that it will reflect revenue of $13,632,000 and a financial profit of $641,000. The major differences are a $600,000 cash grant from the Kentucky Attorney General, still being reviewed by the auditors, the effect of the restructuring of a Watch List Property, (the subject property is Saint Edward Court, which is also discussed in Part III) and the inclusion in our budgeting and monitoring numbers of several smaller properties that have been historically excluded. The message here is that financial performance, financial strength and liquidity are improving with a large part of this performance being driven by three NeighborWorks programs: Portfolio Strengthening; Business Strengthening; and Strength Matters.
The Internal Environment

Changes to organizational structure
In 2013, succession strategies continue. Al Spotts, Director of Real Estate Development, reaches retirement in 2013 and duties are being assumed by David Fannin, Director of Real Estate Finance & Acquisition and Legal Counsel. NSP oversight was consolidated with other neighborhood strategies under the supervision of the Chief Operating Officer and Property Management moved to the Chief Executive Officer’s oversight.

Business model exploration

![Graph showing revenue percentages for different years]

Business Strengthening II
As an encore to the success of Business Strengthening I, NDHC continued its consultancy with Eric Hangen to begin research on prudent expansion of Resident Services and neighborhood revitalization services. For an organization to achieve desired social impacts it must align its programming to these social impacts and undergird programs with sufficient organizational capacity to carry out the work at the required scale. The organization’s environmental context sets constraints on the entire process. Seen in this way, the strategic planning process focuses on a few key tasks and questions. We review each task below, along with potential questions that NDHC might explore. These questions are only examples of the kinds of questions that board and staff members might raise to explore through the strategic planning process.

Clarifying the social impacts

What are the outcomes that NDHC is passionate about, and how will we measure them? While NDHC has already articulated a clear statement of its Mission, Vision and Values, board and staff might choose to revisit aspects of this prior work. For example, one view of NDHC’s mission is that it exists to create and sustain affordable housing, strengthen families, and revitalize neighborhoods — that is to say, it creates important benefits in all three dimensions. NDHC will determine how these benefits are inter-related and how to measure them, which would also require getting more specific about benefits it seeks to create for families. The question of geography also comes into the mission discussion. Is NDHC is primarily trying to revitalize particular neighborhoods.

Aligning programming to social impacts

What are the programs (products, services) NDHC will provide to achieve these impacts? For whom, and how will the organization engage those customers? How will NDHC work with others to pursue collective impact? If NDHC were to define its goal primarily as neighborhood revitalization, the next set of questions would be to define the theory of change of how NDHC improves neighborhoods. Which programs provide large “mission returns” and how is this determined? Do neighborhoods actually need more of NDHC’s core product, multifamily housing?
Aligning programming to organizational capacity

What are the current and potential abilities of the organization - what kinds of programming might it deliver with scale, quality, cost, price, timelines and/or effectiveness that others are unlikely to duplicate, and why? These questions relate to concepts of "core competencies," "competitive advantage" and "organizational niche." While its competencies are broad, NDHC clearly has core skills as an affordable rental housing developer/owner, and its rental portfolio is expected to be a major financial driver. This is so much the case that it may be worth exploring what the upper levels of the pyramid look like if one fixes this piece in place. In other words, if NDHC is first and foremost an affordable rental housing developer/owner, what are the social impacts that it can and should be trying to address? At the same time, there may also be opportunities to creatively re-think what NDHC does based on its core skills (defined not as the programs it is especially good at, but the underlying capabilities that make those programs succeed). For example, NDHC might define its core capabilities as engaging and empowering coalitions of low-income residents and other neighborhood stakeholders, as finding and channeling money into disinvested areas, or as conceiving and completing high-risk real estate deals that for-profit developers would avoid. Each of these answers would lead to very different implications for new programs that NDHC could successfully implement.

Building organizational capacity

How does the organization need to improve in order to deliver and sustain effective programs? These improvements may relate to staffing, management, governance, systems, process or cost efficiencies, financial resources, partnerships, communication, and values. For example, NDHC might be exploring its capacity needs to achieve its aggressive goals for the creation of new community gardens. The organizational business model must be aligned with the market, funding and political realities. Do market, financial or political conditions faced by NDHC demand that it place greater emphasis on achieving certain outcomes? Do shifts in the community development industry demand that NDHC change its business model? Are there unexplored market opportunities for NDHC to promote its mission and make money while it does so? Is the organization likely to get political and funding support to implement a growth agenda? New Directions has achieved such programmatic successes in key neighborhoods: NSP redevelopment activity in Midtown and Shelby Park; Community garden development as an engagement and blight abatement strategy; Housing rehab activity—especially owner occupied rehab to prevent vacancy and abandonment; Community building and engagement work, including volunteer coordination on a large scale with Repair Affair; Connections to existing multifamily portfolio / housing sites as possible platforms for neighborhood engagement and service delivery; Smoketown/Shelby Park “Quality of Life” plan and Midtown neighborhood marketing plan; and Neighborhood access to NTI, CLI, other NeighborWorks tools.

Staff and board capacities

New Directions has evolved into a tri-county regional community development corporation with an average annual budget of $10 million and stewardship of over $50 million in housing assets. We are led by CEO Joe Giessler, a nationally respected community development trailblazer, who joined the agency in 1986 as its Executive Director. He is experienced in Real Estate development, asset and property management, community building, home ownership preservation and nonprofit administration. Under his leadership, New Directions has become one of Kentucky’s largest nonprofit housing managers with offices designed as platforms for neighborhood revitalization and...
resident services. Mr. Gliessner serves on the Governor's Housing Policy Advisory Committee and completed Achieving Excellence at Harvard's Kennedy School of Government.

Lisa Thompson, the Chief Operating Officer, joined the agency in 1991 after a decade spent with a local large bank holding company. Working in tandem with the CEO, she oversees direct administration of Resident Services, Home Ownership Preservation, Neighborhood Stabilization programs and Community Building and Organizing. She works with the board of directors in funds development, strategic planning, and community relations. With NeighborWorks Training Institute, she oversaw the first place-based delivery of the respected Community and Neighborhood Revitalization training series, organization of the 2010 NWA Community Leadership Institute and recently completed a second term on the NWA Community Building and Organizing Steering Committee.

Gerald Tyrrell joined the agency as its CFO in 2012 after a distinguished career in banking and real estate finance. He plans, directs and coordinates the financial activities of the agency including all audits, lending negotiations and investment decisions. Expert in asset management, he facilitates the acquisition, general oversight and disposition of the agency's assets for the purpose of serving the mission and goals of New Directions by providing financial data and counsel to executive staff and to the board of directors. Professional designations include Distinguished Fellow and Certified Real Estate Financier as bestowed by the National Society of Real Estate Finance, and he is a Robert Morris Associate of the National Association of Bank Credit People. As a respected bank executive vice president and later as a municipal counselor to Louisville Metro Government for downtown development, Gerald has provided skilled and decisive counsel in service to the community.

As Al Spotts, Director of Real Estate Development, reaches retirement in 2013, duties are being assumed by David Fannin, Director of Real Estate Finance & Acquisition and Legal Counsel. David has big shoes to fill! Since 2007, Al Spotts has redeveloped 136 subsidized units topping off with the openings of subsidized properties, Woodbourne House and Wellspring Tonini. He adds keen understanding of energy conservation and efficiency honed during years as a Private Energy Consultant at Louisville Resource Conservation Center and as an Energy Auditor at Urban Shelter Associates. He is a member of the American Association of Energy Engineers and a Certified Energy Manager. He is an associate member of the Illuminating Engineering Society.

David Fannin is an exceptionally able and committed professional. Previously, he was General Counsel at Sunbeam Corp., then Office Depot, Inc. He was a partner at Louisville firm Wyatt, Tarrant & Combs LLP during the time he served as NDHC Board President. David's first challenge? The New Russell Apartments project with 182 units!

Bridgette Johnson, Director of Property Management, manages the New Directions housing portfolio of 960 units located across the metro area. She coordinates activities with the US Department of Housing and Urban Development, Kentucky Housing Corporation and Indiana Housing and Community Development Authority for the purposes of management reviews, inspections and rent increases. She is responsible for staff development, budget development and compliance for all aspects of property management including maintenance. Ms. Johnson joined the agency in 2004, assuming this role in November 2010. She brings depth of knowledge including Real Estate and market assessments, marketing and leasing, construction management, project accounting, and project redevelopment. Her priorities include high occupancy rates, consistently superior tenant satisfaction ratings and high retention. She is a member of the National Yardi Affordable User Group. She is a Certified Occupancy Specialist provided by the National Center for Housing Management and completed CHAMS certification in 2013.

Michael Gardner, Director of Home Ownership Preservation, joined New Directions in 2004 as a Housing Specialist. From 2004 to 2007, Mr. Gardner performed the underwriting and loan packaging for homeownership programs and served as the Program Coordinator of Newburg Rehabilitation Program. In 2006, Mr. Gardner completed the Housing Development Finance Professional Certification from the National Development Council (NDC). In 2008, he assumed duties related to the management of the Smoketown and Shelby Park Owner Occupied Rehab Program. He oversees the region's annual Repair Affair that in 2012 convened over 1,500 volunteers to aid 150 older or disabled homeowners through the provision of needed home repairs. In 2009, Michael earned a professional certificate in Affordable Housing from NeighborWorks America and has completed the University of Louisville Master's of Urban Planning Program.
In 2014, over $1 million in Neighborhood Stabilization proceeds single-family will be managed by Gus Thomas, Real Estate Development Coordinator, and Michael Gardner, who has overseen Shelby Park NSP as a special project coordinator in addition to his duties as Director of Home Ownership Preservation. Amanda Sneed, MSW, Resident Services Director oversees the agency’s social services operations, to include the highly regarded scattered site youth Learning Center Program, the Service Coordinator program which connects residents to community resources in order to maintain self-sufficiency and independence and the Transitional Services Program which serves single-parent homeless families. They manage grant compliance and expense control for a budget exceeding $600,000 which includes allocations from Metro United Way and US HUD. Two community gardens are thriving offering over 30 raised beds to residents and neighbors.

Two professionals support the agency’s complex Information Technology platform. Director Janice Hill and Specialist Adam Kessinger manages a large network that includes use of Microsoft Office 2007, GroupWise 8, Trend Anti-Virus, ZENworks, Adobe Acrobat, Novell Messenger. Raiser’s Edge and Yardi’s Voyager. Our network is a Novell / Microsoft backbone and is virtualized on ESXi. We have three physical servers that run 13 servers which make up our network. By running a virtual network, this allows room for growth and keeps our down time to a minimum. Sewell Long, Systems Analyst, has a business technology background of 25 years including designing code, writing code, modifying code, analyzing user needs, suggesting software to fulfill user needs, modifying third party applications, analyzing system needs, suggesting hardware to fulfill system needs, installing hardware, and maintaining hardware. His background in designing code and analyzing user and system needs affords the basis for business related processes. He deals directly with all aspects of the agency’s business – finance, manufacturing, payroll, inventory, electronic communication – and their integration.

Other members of a strong senior and middle management team include Controller Nancy Hilgendorf; Human Resources Specialist Danny Flanigan; Lamika McCown-Perry, Property Management Quality Assurance Team Leader; Derrick Wilson, Repair/Rehab Project Manager; Ashley Cassettty, Coordinator and Max Monahan, Specialist, Resource Development and Community Building and Organizing; and Booker Rice, Assistant Director, Home Ownership Preservation.

Board expertise is extraordinary representing the diversity of the community. Its collective skill set and base of experience prepares it to work together as a 24-member team to achieve the organization’s mission objectives as well as set even more progressive strategies and long term goals. Through the board’s extensive networking, the agency exchanges ideas and influence in multiple sectors, including real estate development, housing analysis, higher education, municipal government, neighborhood relations, banking, social services and corporate Louisville. Community representation brings individuals of diverse incomes and backgrounds to the board, and these perspectives are broadened by the alignment of our board with its Neighborhood Roundtable, which meets as frequently. The spear point of the board is its executive committee, a nine-member team with five officers and cross-representation from the board’s standing and ad hoc committees. Professions represented on the board include single-family, multifamily and commercial development and asset management, law, accounting, corporate division management, housing policy, social services, grants management and brokerage. Several are members of the congregation that created the agency, Saint William Church, and are active in ongoing urban initiatives. Almost everyone is involved with Repair Affair—and many notable board and board emeritus lead not just one team, but as many as five annually! Several are very skilled and use their networks of engineers and friends to build ADA compliant ramps and repair major household systems.

Our Repair Affair effort, starting in NeighborWorks Week, aids over 150 households of low income and our board together is responsible for as much as 20 percent of that production. Board skill in asset management has been and continues to be a strong and essential skill as the agency redevelops its valuable subsidized portfolio. Board members, while supported by NeighborWorks Training Institute, Board Source access and our local Center for Nonprofit Excellence, have asked for additional training and exposure specific to neighborhood markets where high concentration of agency assets and programs are engaged, and with comparative measurements. Two are engaged in community-level data gathering. The board leads the agency’s strategy for private resource development. Several attended a Benevon training in February and work with agency staff to implement a new resource development plan.

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FY2014 Goals in organizational management, board governance and resource development

Goals and strategies

Organizational Management

Business Strengthening has been pursued three ways during the year in review and going forward and they are: a) internal controls including new executive controls and budget processes; b) internal funding; and c) the successful pursuit of external financial support. In the area of internal controls, consultative support leads us to a new level of executive controls and a tighter budget process which has engaged the board and its Finance Committee, lines of business directors and other staff working with financial variables.

The New Directions Executive Operations Committee, a new executive control, was instituted in January 2013 and empowered to review operating procedures and set policies as related to constitute and manage initiatives and efforts that cross over current reporting lines, review all potential conflicts of interest situations and make decisions regarding a course of action to remove the conflict and review other policy issues as they arise that the Chief Executive, Operating or Financial officers believe require consideration. The Finance and full board will review the final budget recommendation at its second FY2014 meeting.

We have successfully implemented the budgeting and monitoring staff procedures recommended by the NWA consultant and these procedures are being shared now with asset and property managers who can either recommend or approve financial transactions. These managers are supplied with the appropriate numbers and briefed on what the statements mean so that they can see the effects of their decisions. We note that the implementation of this procedure is that financial performance is improving in our properties. By mid FY2014, the process will be expanded to Line of Business managers with these same expectations.

Also in Part III is a detailed description of internal funding progress with The Community Capital Fund and The Internal Operating Reserve Fund. As a summary, financial goals include increasing short-term line of credit availability to a total of $1.5 million. This short-term capital is important for the execution of Home Ownership Preservation (HOP) activity and it can also support portfolio expansion. We will establish intermediate term (3 to 5 years) borrowing facilities with NeighborWorks network affiliates or a similar financial intermediary to refinance properties or to provide temporary funding for new acquisitions for portfolio expansion. We will continue to build our internal cash reserve by a net of $200,000 per year until we have $1 million by continuing Portfolio Strengthening with aggressive asset management strategies to strengthen the financial metrics on two properties with remediation Asset Management Action Plans and maintaining the positive operating results of all properties by cost control, improved income as markets allow, and eliminating unproductive expenditures. We will continue Rental Portfolio Preservation through refinancing and redevelopment activities as opportunities allow and judiciously seek additional multi-family residential assets to expand our multi-family business and its cash generation.

Board Governance and 2014 Resource Development Goals

Building on governance strengthening in 2013, NDHC will establish board level fundraising capacities by utilizing the Benevon® Model to enable long-term financial support for our high-mission program activities that stabilize families and neighborhoods.

RD2014_1: The When A Door Opens contributions goal is to raise $400,000 including $80,000 cash and $400,000 in leadership pledges. (Baseline: As of October 11, 2013, $74,750 in pledges and cash has been secured.)

RD2014_2: The NDHC Resource Development Plan will be implemented aggressively seeking every feasible, mission-compliant resource and maintaining donor relations, as articulated in the baseline chart below.

New Directions Housing Corporation is well suited for the NWA pilot group using the Benevon model. Annual revenue has been driven by rental and fee income (75%) with the next largest portion coming from grant income (20%). Individual gifts make up less than 20% of the agency’s annual revenue, but these gifts and United Way agency membership fuel innovation and community engagement. Benevon is a “move management” model

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chosen as a result of board strategic planning. It represents a tough choice by the board to pivot to an agency resource model more dependent on their direct and constant involvement. This follows a multi-year portfolio strengthening strategy that has largely remediated cash-flow inhibitors embedded in the managed properties. Today’s board envisions a new board model motivated to systematically increase diversification in funding to ensure robust and self-directed strategic movement. No other grant or other revenue producing project has been eliminated, so executive and resource development staff are tasked a new time management paradigm. The board’s role changes into one that includes both giving and getting multiyear unrestricted resources. This is a necessary shift, confirmed by continuous changes in federal leadership, congressional activism around entitlement spending and local focus on the highly uneven income distributions in Louisville. The Ask Event, called The Dream Builder Breakfast, is scheduled for November 19, 2013. It will be held at a five-star location owned and donated by the board president, and will feature as many as 45 tables of eight, with 30 already having identified table captains.

| Major Grant and Contribution Prospects including When A Door Opens/Benevon Plan |
|-------------------------------|-------|-------|-------|-------|-------|-------|-------|
| NDHC Fiscal Year              | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  |
| PNC (NCB)                     | $18,650 | $13,000 | $40,397 | $10,000 | $10,000 | $10,000 | *$10,000 |
| NeighborWorks America          | $287,000 | $235,000 | $185,000 | $80,000 | $275,000 | *$150,000 | *$300,000 |
| Capital Funding               | pending| pending| pending| pending| pending| pending| pending|
| NeighborWorks America          | $57,000 | $77,799 | $137,000 | $101,000 | $80,000 | $182,000 | *$10,000 |
| Unrestricted Expendable Grants| pending| pending| pending| pending| pending| pending| pending|
| HUD Supportive Services and   | $185,000 | $186,000 | $188,000 | $187,000 | $187,000 | $187,000 | $187,000 |
| Service Coordination Grants   | pending| pending| pending| pending| pending| pending| pending|
| The City of New Albany,       | $82,498 | $128,890 | $134,187 | $160,000 | $2,398,000 | *$510,000 |
| includes 100% NSP and ICHDA   | NSP | proceeds at | pending| pending| pending| pending| pending|
| Pass Through                  | pending| pending| pending| pending| pending| pending| pending|
| Horseshoe Foundation of        | $20,000 | $15,000 | $17,500 | $15,000 | $15,000 | $12,500 | *$12,500 |
| Floyd County                   | pending| pending| pending| pending| pending| pending| pending|
| Louisville Metro Government    | $581,405 | $755,603 | $430,201 | $611,372 | $1,116,000 | $1,048,000 | *$1,116,000 |
| Metro United Way               | $169,345 | $159,094 | $146,510 | $175,776 | $142,000 | $142,000 | *$142,000 |
| JP Morgan Chase Foundation     | $38,500 | $95,000 | $130,000 | $130,000 | $45,000 | pending| pending|
| UPS                            | $5,000 | $5,000 | $10,000 | $7,500 | $7,500 | $7,500 | *$7,500 |
| Kentucky Housing Corporation   | $48,462 | $130,000 | $150,000 | $150,000 | $357,500 | *$150,000 | *$150,000 |
| and Federal Home Loan Back     | pending| pending| pending| pending| pending| pending| pending|
| System Affiliates (AHTF / AHIP)| pending| pending| pending| pending| pending| pending| pending|
| TOTAL                          | $1,444,398 | $1,740,839 | $1,418,795 | $2,127,648 | $4,381,000 | $2,551,500 | $1,199,000 |

Appendix: 2014 SMART Goals by Lines of Business and the NDHC Organizational Chart are located on following pages.

For more information, contact Joseph E. Gliessner, Jr., CEO, 502.719.7199
Lisa Thompson, COO, 502.719.7106 * Gerald Tyrrell, CFO, 502-719-7116

www.ndhc.org
2014 SMART Goals by Lines of Business

2014 Asset and Property Management Goals
In addition to maintaining high occupancy and REAC scoring, the APM team is tackling operational excellence with help from other business lines. In 2013, Property Management reorganized the maintenance delivery system and is using Yardi systems made possible by NWA technical assistance to bring more automation to the fieldwork. This line of business will collaborate with HOP on construction management oversight for projects under $750,000, maximize cash flow through occupancy and other fee revenue, and work with Resident Services on Green Resident Training, Eviction Prevention and social services cross-marketing.

APM2014_1: By 12/31/2014, NDHC APM will enable smoke-free environments for 25 percent of the portfolio.
APM2014_2: By 3/31/2014, working in tandem with CB&O health initiatives and Resident Services, APM will ensure that 75 percent of residents will have experienced NDG2 (New Directions Goes Green) orientation. (See Resident Services goal for baseline detail.)
APM2014_3: By 2/28/2014 the Maintenance Service Center and The Casa Center achieve Green Standards.
APM2014_4: An inventory and energy monitoring system plan in 12 months, implemented in 18 months that can measure usage by unit, property/meter.
APM2014_5: APM and RED, with Resident Services, will facilitate the temporary dislocation of residents related to the New Russell Apartments development of 182 units. (See RED goals for baseline detail.)
APM2014_6: 90 rental units will receive rehabilitation by 10/31/2014, including 60 Russell units should LIHTC be awarded; 8 units at 446-448 Amy (Directions Portfolio); 12 units at 4404-08 Del Park Terrace (Directions); 1227 Cypress and 1400 Catalpa streets (7 Historic Parkland units); and potentially the acquisition/rehab of 1506-08 West Market Street (8 units)

2014 Real Estate Development Goals
Real Estate Development goes on the offensive, directing itself to the redevelopment of non-Watch List properties starting with the New Russell Apartments development, which preserves and financially redevelops 182 units. Continuous Portfolio Strengthening activity also occurs with RED focus bringing new resources to Saint Edward Historic Parkland properties.

2014 Real Estate Development/Multifamily and Portfolio Strengthening Development Goals
RED_MF_2014_1: By 3/31/2014, redevelopment at 1400 Catalpa and 1227 Cypress (Historic Parkland redevelopment) will be completed, with a pickup of seven new units renovated with NSF, forgiven debt.
RED_MF_2014_2: By 12/31/2014, New Directions shall secure debt mitigation on five Historic Parkland/Scattered Site buildings. (Baseline: two of seven mortgages have been forgiven by Louisville Metro Government. This goal would take this project off Watch List.)
RED_MF_2014_3: New Russell Apartments has achieved permanent financing commitments, and upon the award of LIHTC, will reach project closing and construction start by 4/30/2014 and completion by 6/30/2015. 60 units shall be completed by 10/31/2014.

2014 Real Estate Development/Single Family Development Goals
RED_SF_2014_1: Work with Business Strengthening Consultant Eric Hangen to focus on the challenge of serving multiple neighborhoods and the possibility to capitalize on emerging development trends (e.g. connections between Shelby Park and downtown/U of L, private sector interest in Portland, marketing strengths of Midtown and New Albany).
RED_SF_2014_2: By 12/31/2015, NSP proceeds will complete two homes in both Midtown, New Albany and Shelby Park, Louisville, for sale to low-to-moderate income families. Two additional Vacant Property rehab/ rezone units will also be completed in Shelby Park.

Soft market realities may make more low-income multifamily development a tough fit with revitalization needs so what other resources and skill sets can New Directions bring to bear? There are extreme challenges faced by some neighborhoods further complicated by resource limitations, often due to political shifts. (Baseline: Business Strengthening research began in summer 2013, to continue with interns and Mr. Hangen in FY2014 Market opportunity is sought for subsidized and market sale properties aligned with revitalization strategies.)

2014 Home Ownership Preservation Goals
Uncertainty of CDBG contracts, including Portland NRSAs, City of New Albany grant contracts past current year (City of New Albany Emergency Repair, Southern Indiana Repair Affair) ending in June 2014 create an environment where private fundraising and other resource development is essential. Now, more than ever, operational excellence is important.

HOP2014_1: By 5/1/2014, fully migrate from Gordin database to Microsoft ACCES to track and maintain homeowner/client records.
HOP2014_2: Home Ownership Preservation will continue to strengthen ties to University of Louisville to develop an annual Home Ownership Preservation Summer Internship plan entirely devoted to data collection, success measurements, and GIS mapping. (Baseline: one student currently serves during fall/winter semesters.)
HOP2014_3: By 12/31/14, the CASA Warehouse/Repair Affair related items and materials will be completely re-organized, clutter removed, and items that are of no use will be removed. Tools and supplies will be neatly stored in bins that are labeled. The " Repair Affair Tool Closet" will be created.
HOP2014_4: By 6/1/2014, recruitment of 10 new Repair Affair Sponsor/Volunteer Teams (Baseline: 150 to 160 teams annually recruited currently)
HOP2014_5: By 6/1/2014, staffing training goals for two FTEs include completion of Federal Lead Based Paint Regulations, Lead Worker Training, CDBG Sub recipient Training, Income Verification/Documentation, Home Inspection Training, Specification Writing.
HOP2014_6: By 6/30/2014, HOP will process at least 30 applications for home repairs to place 40 roof repairs in Louisville and 25 general repairs in New Albany by June 30, 2014, while reaching high levels of quality and maintaining grant compliance.

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HOP2014_7: Repair Affair will coordinate at least 40 volunteers to help repair projects on the Louisville-Jefferson County Repair Affair Event Day, and at least 20 volunteer teams on the Southern Indiana Repair Event Day. Events will occur in mid-June 2014 during NeighborWorks Week.

HOP2014_8: By June 2014, Home Ownership Preservation will update NDHC Rehabilitation Specifications & Standards to include “Green Specifications & Standards” and will create and implement a post rehabilitation toolkit for assisted homeowners.

HOP2014_9: Home Ownership Preservation will provide a welcoming and productive environment for interns and volunteers, including VISTA’s and AmeriCorps volunteers or others in national service, offering opportunities for learning, community service and personal growth.

2014 Community Building and Organizing Goals
CBO2014_1: Maintain meeting rate and increase attendance at Neighborhood Roundtable by convening at least six meetings in FY14 and publishing the annual Property Assessment Report for Louisville Metro Government’s implementation and code enforcement (Baseline: increase # of neighborhoods from 10 to 12). Work with three neighborhood groups in areas where New Directions has MF/SF housing investment.

The Neighborhood Roundtable is an official Advisory Committee of the board of directors. Minutes, agenda items and training priorities are shared between the board and the Neighborhood Roundtable. This year, New Directions will center Neighborhood Roundtable agendas on neighborhood preparation for the May 2014 NeighborWorks Training Institute that will come to Louisville. We anticipate that mobile clinics and tours for classes may engage our resident leaders who are at the top of their games! This goal already impacts the organizational structure as feedback from the resident leadership group is officially acknowledged as input by the board of directors. Its peer learning schedule is part of the board’s capacity building calendar. Other ways that this may impact organizational structure strategically is the ongoing community stabilization strategy of aligning programs for greater impact. This group is an invaluable source of information for shaping that plan and gauging its qualitative impact.

CBO2014_2: Continue the message of health access, economic empowerment, environmental sustainability and education via the New Directions Goes Green Initiative in every organizing and community building forum so that 50 percent of residents in California, Portland and Shelby Park rental properties have engaged in at least one activity that promotes these benefits. (Baseline: 130 households)

This important and shared outcome between Community Building and Organizing and our Resident Services effort is in its beginning stages but is anticipated to make a major mission impact. New Directions is exploring its impact with low-income families as part of its green agenda. With 32 raised beds, four large rain gardens, experimental green building design and Energy Star enhancements in single and multifamily housing, our plan is to inspire, teach—and learn from neighborhood and subject experts to achieve Green NWO status as an indicator of our changed behaviors. Healthy eating programs will be implemented at three different multi-family locations. At Brandies it will include children from St. Benedict Early Childhood Center. The occupation of the Brandies gardens will continue to increase. Harambee Health Center will continue to partner with us in providing preventive health care programming for residents at two of our multi-family properties. Harambee Health Center will also be offering a neighbor health advocate training for residents and members of NDHC staff in California and Shelby Park. All of these new health living programs and further occupancy of garden beds will impact the mission of NDHC and more green in FY14.

CBO2014_3: Convene ABCD/Business Strengthening strategic planning retreats (2) in January and March 2014 for five teams, including Saint Benedict ECD, Shelby Park Neighborhood Association, New Directions Resident Services/CBO and Center for Neighborhoods.

2014 Resident Services Goals
RS2014_1: By 9/30/14, eviction prevention strategies will intervene in 10 NDHC breach cases to prevent homelessness for cost savings of $25,000 to the portfolio. (10 units X $2,500 each)
RS/PM2014_2: By 3/31/2014, Property Management and Resident Services implement the New Directions Goes Green Resident Awareness Program to 75 percent of the portfolio (1,350 residents / 650 units) via workshops, on-site huddles and welcome packages which cross-market Service Coordination, Learning Centers, Harambee for Health access system, Neighborhood Roundtable, community gardening and Neighborhood Network Center access. Property Management will institute recycling support to 650 units. (Baseline: 57 units active to date.)

RS2014_3: By 8/31/14, increase by 100% the number of NDHC resident children for active participation in the learning center program by 6/2014. (Increase by 46 NDHC children.) Market the program with materials, service coordination contact, cross marketing with property management using the referral and introduction package to new residents at time of move in, and develop parent initiative projects to foster the families themselves becoming advocates and internal marketers.

RS2014_4: By 8/31/14, expand the parent initiative project (civic engagement) by reaching out to 20 or more learning center families and encouraging them to become ambassadors of the program itself to increase learning center participation by 8/31/2014. (New initiative.)

RS2014_5: By 12/31/14 increase staffing by adding one to 2 FTE to increase service coordination and help with special projects by searching for more funding opportunities by 12/31/2013.

RS2014_6: By 12/31/14: Down to Earth Increase by 20% resident and communities’ participation in the “Down to Earth, The Brandies, Garden is becoming active and numbers are developing this year. Increase by 20% volunteerism in the “Down to Earth, Brandies Gardens by 12/14. Garden is becoming active and numbers are developing. Increase total RS volunteerism by 40% by developing a targeted strategy of looking for talent in specific venues to accommodate and enhance the learning center program and garden projects. (Baseline: Increase to 59 volunteers.)
Part III. Finance and Asset Management Outlook
Assessment of Financial Health

Current Financial Statements and Agency Financial Condition

Unaudited consolidated financial statements of the Agency as of June 30, 2013 reflected continued improvement with a very conservative net revenue of $345,600 on revenue of $11,500,000. These numbers reflected only the properties and transactions that our auditors are finished with. The comparison is as follows:

<table>
<thead>
<tr>
<th>000 Omitted</th>
<th>Audited FY2011</th>
<th>Audited FY2012</th>
<th>Unaudited FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$ 9,183</td>
<td>$ 8,278</td>
<td>$ 11,483</td>
</tr>
<tr>
<td>Earnings</td>
<td>$ 693</td>
<td>$ 310</td>
<td>$ 345</td>
</tr>
</tbody>
</table>

This chart is included because it is consistent with previous years.

Our Line of Business Report, included in this package, is probably closer to where our final audited numbers will come in. We believe that it will reflect revenue of $13,632,000 and a financial profit of $641,000.

The major differences are a $600,000 cash grant from the Kentucky Attorney General, still being reviewed by the auditors, the effect of the restructuring of a Watch List Property, (the subject property is Saint Edward Court, which is later discussed) and the inclusion in our budgeting and monitoring numbers of several smaller properties that have been historically excluded.

The message here is that financial performance, financial strength and liquidity are improving with a large part of this performance being driven by three NeighborWorks programs: Portfolio Strengthening; Business Strengthening; and Strength Matters. Current and future performance will be discussed in terms of these programs, primarily for the first two because these programs have been key elements to the positive financial development of this agency.

Portfolio Strengthening
The first program, Portfolio Strengthening, was initiated several years ago in 2008 when we were encouraged to request that debt held by our Louisville Metro Government be forgiven or assigned to us. Since then we have seen our list of Watch Properties shrink to the two so marked currently. Please see Appendix A for a narrative called Historic Portfolio Strengthening which relates activities for three years through 2012 as we reported last year.

In FY2013, several important developments occurred with favorable results.

First, the Mark-to-Market for Reeser Court was completed. recasting that property helped us in three ways:
1) A substantial renovation was completed with a little more than $1 million in HUD funding going into the property thereby extending the useful project life by a number of years; 2) NDHC was assigned the Mortgage Restructuring Mortgage Note by HUD in the amount of $1,161,000, a capital pick up; and 3) This historic property which has always been financially marginal became a positive contributor with its first Waterfall Payment to us of $33,000. Reeser performance will improve with 12 months of regular operations now that the renovations are completed.

Second, the Brandeis/Pearson HAP Transfer was completed. Brandy's Apartments was fully occupied by the end of calendar 2012 and the property developed a positive cash flow of $48,800, a vast improvement from the cash loss of $105,000 the previous year. It is anticipated that cash flow will continue to improve as we continue normal operations with little vacancy. As a final action in this transfer, we have completed the demolition of the Pearson property. For a part of this year we thought that a neighboring institution may want to acquire the property, but they eventually waived off. FY2013 Financials include a $411,000 write-off of the undepreciated value of the three buildings that constituted the property. We are pleased to have this behind us!

Third, we have achieved significant milestones with Saint Edward Court. As previously reported, our worst financial performer and Watch Project property, Saint Edward Court, had its tax partnership dissolved with the 99 percent owner's equity assigned to us. We immediately transferred title of the real estate to NDHC and applied to have the property taken off the real estate tax rolls. On September 2, 2013 this application was approved and property taxes will cease next year. This was a burden to the property of between $75,000 and $80,000 in cash annually. Also, with the acquisition, depreciation was reset so that even though cash was not affected the financial
loss will be reduced by approximately $190,000 annually. We have filed an appeal to get the taxes payable this year reduced and if successful this will further assist the performance of this property. Negative cash flow is reduced from $153,000 to approximately $75,000 in FY2014 and to between $35,000 and $45,000 going forward. While not out of the woods, Saint Edward Court is now much closer to financial success.

**Historic Parkland (Scattered Sites) which is our other Watch Property also has notable improvements.** The first mortgage to Kentucky Housing Corporation has been paid off and two of the seven properties which have been out of service for several years are now undergoing a substantial renovation thanks to funding assistance from Louisville Metro Government. Each of the seven properties has a second mortgage to Louisville Metro Government and the first two aggregating $100,000 have been forgiven and the original $340,000 has been reduced by a like amount. We have received a grant from Louisville Metro Government to renovate these two properties, 1400 Catalpa and 1227 Cypress, in the amount of $374,000. We hope to receive more support from Louisville Metro Government either to forgive remaining mortgage debt or to renovate the remaining five properties. The city has targeted this neighborhood for redevelopment and improvement and we have the opportunity to be an important contributing player in the city’s plans.

**Roosevelt Apartments continues its journey to financial viability.** Currently, its primary financing is a $900,000 loan from New Directions and it has been paying back old payables to NDHC, as well. Cash flow improved from $22,000 in 2012 to $60,000 in 2013 and its payables to NDHC are now up to 2013, a great improvement from the recent past. This property, located in the Portland Neighborhood, is almost a market rate project with only eight of 47 tenants using Section 8 vouchers. It is anticipated that in 30 months this property will qualify for another mortgage loan with conventional underwriting terms.

**O’Connor Square, Ltd., a 64-unit Property is also still improving and has been removed from the Watch List.** In its fiscal year ending December 2011, it had a negative cash flow of $19,000 on revenue of $320,000. Circumstances have changed, and for the most recent fiscal year ending December 2012, cash flow improved by $34,000 to a positive $15,000 on improved rents of $10,000. It is important that performance continues to improve because the first mortgage will mature July 31, 2016 and a balance of $1,152,000 will need to be refinanced at that time.

**New properties will strengthen the portfolio.** Two small adaptive conversions of historic properties, Wellspring Tonini and Woodbourne House, have come on line in calendar 2013. Together, they provide a combined total of 23 subsidized residential units to come under management creating a modest stream of recurring revenue.

**Our major Portfolio Strengthening deal is The New Russell Apartments**, a 182-unit project housed in 21 scattered apartment buildings located in Louisville’s west end and its Old Louisville Neighborhood south of the central business district. We have applied for both Historic Preservation and Low Income Housing tax credits and if approved, this will be the largest LIHTC transaction in this agency’s history. Slightly in excess of $10 million in investment money will flow into a substantial rehabilitation of these units and we will contribute our existing notes due from the project in the approximate amount of $5 million. We have applied to NeighborWorks for a Capital Grant of $300,000 in order to ensure sufficient resources for temporary dislocation of residents during construction. Investor funds will all go into the project rehabilitation expenses and we will have to earn our $2.5 million Developer Fee through cash flow generation of the project over a number of years. Fifth Third Bank, our primary bank, has committed to make the construction loan and Ohio Capital Corporation for Housing and Kentucky Housing Corporation will provide the tax credit investment package. Recently, we applied for a rate reduction on the existing first mortgage loan and HUD has approved an interest rate reduction from 6.25 percent to approximately 4.20 percent. We believe the substantial rehabilitation of these 21 apartment buildings, most of which are over 100 years old, is one of the most important events that will happen at NDHC for the next year or so.

**In summary, our Portfolio Strengthening continues with plans from previous years with favorable results and important progress is being made on our Watch Properties.** We have moved to the offensive with Russell Apartments, our largest single property being positioned for a LIHTC transaction. If tax credits are awarded, this will be closed in April 2014 with construction to immediately follow.
Business Strengthening
This activity has been a specifically shaped by our participation in the Business Strengthening Program, including participating in the CFO/CEO training programs provided by NeighborWorks America as well as applying ourselves to the consulting work with the NWA-recommended and funded Business Strengthening Consultant, Eric Hangen.

Background
Our principal local bank, PNC, became uncomfortable with their exposure to us and in June 2012, on relatively short notice, we paid off the balance of a short term credit line. NeighborWorks assisted us in a very important way with this transaction. A few months later, our secondary bank, Fifth Third Bank, renewed its $750,000 line in a much less restrictive way and because of proper and modest usage we believe their confidence in NDHC improved substantially. Recently, they committed to being the construction lender for our Russell Apartments project, a relatively short-term exposure but $10 million none-the-less.

Business Strengthening has been pursued three ways during the year in review and going forward and they are: a) internal controls including new executive controls and budget processes; b) internal funding; and c) the successful pursuit of external financial support.

In the area of internal controls, consultative support leads us to a new level of executive controls and a tighter budget process which has engaged the board and its Finance Committee, lines of business directors and other staff working with financial variables.

The New Directions Executive Operations Committee, a new executive control, was instituted in January 2013 and empowered to review operating procedures and set policies as related to constitute and manage initiatives and efforts that cross over current reporting lines, review all potential conflicts of interest situations and make decisions regarding a course of action to remove the conflict and review other policy issues as they arise that the Chief Executive, Operating or Financial officers believe require consideration.

Recommendations for budgetary policy are reviewed at EOC level. For FY2014, Finance staff worked directly with lines of business managers to prepare a preliminary budget which was vetted and recommended by the Finance Committee before endorsement by the board of directors at its June 27, 2013 meeting.

Since then, budget assumptions have been systematically reviewed as FY2013 auditor feedback and additional business data have become available. The EOC has considered budget policy recommendations which will cause a final and more refined distribution of facility and information technology fees. The Finance and full board will review the final budget recommendation at its second FY2014 meeting. Variance to the preliminary expense budget is less than three percent at this time.

We have successfully implemented the budgeting and monitoring procedures recommended by the NWA consultant and these procedures are being shared now with asset and property managers who can either recommend or approve financial transactions. These managers are supplied with the appropriate numbers and briefed on what the statements mean so that they can see the effects of their decisions. We note that the implementation of this procedure is that financial performance is improving in our properties.

By mid FY2014, the process will be expanded to Line of Business managers with these same expectations.

Next, is a review of internal funding progress. We have initiated the establishment of two Internal Funds to assist management in a more macro way—The Community Capital Fund and The Internal Operating Reserve.

The Community Capital Fund (CCF) has been indirectly funded by a $600,000 grant from the Kentucky Attorney General with funds received by the Commonwealth of Kentucky from the National Mortgage Settlement. The five NeighborWorks affiliates in Kentucky each received a $600,000 grant from this source and NDHC elected to fund our CCF which we use to support our single-family rehab and new construction projects in Kentucky. Frequently we are asked to fund the small neighborhood-based contractors (payroll on Friday) before government sources reimburse us. The CCF is a useful tool for this operation because we are expected to avoid losses on these funds. This fund has been used between 24 and 50 percent of its capacity in the last six months.
The Shelby Park Neighborhood Association (one of our targeted neighborhoods) placed its reserves with us and made us a $50,000 loan for two years at two percent. This money was placed in our CCF bringing its total to $650,000 of inexpensive funds that cannot be lost.

The other fund, the Internal Operating Reserve Fund, was established in November 2012 with Waterfall Payments from our June 30 Properties in the amount of $411,000. We received additional Waterfall Payments from several December Properties and after the distribution for 2013 was ascertained to us by our auditors we now have $910,800 in the Fund. The Reserve Fund is used to assist meeting payroll and other NHDC obligations because fees we charge our properties are not enough to always cover our expenses particularly when there are extraordinary expenses such as insurance or developer expenses. We are also accumulating funds in anticipation of having to forgo Waterfall Receipts from Russell Apartments during its construction phase. We believe that this Fund is very modest for an agency of our size and we intend to increase it to a strategic level determined by management and our board using several measures, perhaps the CUBE.

External Financial Support
Our most important source of external financial support has been NeighborWorks for the eight years of our affiliation. However, when our line of credit with FNC was paid off (with NWA’s important assistance) we were aware that FNC had another loan maturing two months later. This was the mortgage on Roosevelt Apartments and the $902,000 balance was paid off in a timely fashion again with major help from NWA through previously awarded capital grant funds. This prompted an analysis of additional maturities and it became clear that we needed an intermediate term facility (three to five years) to finance our properties that needed additional time until their underwriting characteristics improved for more favorable permanent loans.

We needed revolving loan facilities whereby we could use the financial resource for another property when another was paid off was preferable. Discussions with NWA Southern District leadership also led us to explore how we could find lending partners within the network to strengthen our District and NeighborWorks.

Since the last Organizational Underwriting review, a $600,000 revolving facility was obtained by NDHC from Community Housing Capital, an affiliate of NWA. New Directions is using $502,000 of this facility to help carry Roosevelt Apartments until it is ready to refinance. A $750,000 facility has been accepted from Federation of Appalachian Housing Enterprises (FAHE), another Kentucky NeighborWorks network member. Closing of this facility is anticipated before the end of October 2013. There are several possibilities for use in the future, including the near-term refinancing of Brandeis Apartments (2014) and The Casa Center, our office building (2015).

Already mentioned are the Attorney General’s grant of $600,000 and the Shelby Park loan of $50,000. **If these four facilities are added together, new external financial capital adds up to $2 million that didn’t exist one year ago concentrated in a $1.35 million in primary need money (which is intermediate term money) in revolving facilities.**

Including the $750,000 line of credit gives NDHC total external financial facilities of $2,750,000 to go with its Internal Operating Reserve of unencumbered cash in the amount of $910,800. We believe that we now have adequate liquidity for our needs so long as we stay at our current level of activity. The final point to make here is that the bulk of these new facilities have been provided by organizations that understand our business and appreciate NDHC’s execution of its business under present management. This part of Business Strengthening has shown major progress in the most recent year. This job is never done.

Strength Matters
Strength Matters, the third NeighborWorks initiative, is just beginning to make an impact. We have supported this effort from the first and contribute our figures monthly. We have attended the webinars and experimented with the data contained in the CUBE but as an institution we are not familiar with this national tool. We have done much with analysis with internal comparison and we look forward to becoming more familiar with the CUBE so that analysis by external comparison can be added as an important financial tool. Even though there are basic

New Directions recommends that NeighborWorks America schedule training time at Training Institutes for CUBE application preferably at each convening.

Initial training of concentrated nature in person might prove to be more effective than webinars. Save webinars for updating, refresher training and sharing successful database use with this rapidly improving tool.
differences in markets that cannot be replicated such as market size, market growth, maturity, economic activity, market wealth, workforce education and skills, and geographic advantages, there is still a great deal of external analysis that can be made that will lead to appropriate observations, questions and best practice issues that can be difference-makers.

Summary
New Directions Housing Corporation has made substantial progress in the financial area since the last Operational Plan with NWA’s generous assistance. Portfolio Strengthening has continued to encourage continuing property stability. Success stories are being told, and new ones are being composed. Business Strengthening implementation has benefited by the application of new internal reporting and monitoring protocols recommended by NWA’s consultant as well as a successful application to decision makers in the agency. Better decisions are being made and it is predicted that this will accelerate as our institution gets better in the still-new implementation phase.

Internal funds are new since the last report. The Community Capital Fund, $650,000 currently, is used for short-term advances where payments from government entities are slower than pace of small vendor needs (often the neighborhood-based vendors working with our rehab/renovation projects in the Home Ownership Preservation Line of Business.) No capital losses are expected with these funds. The Internal Operating Reserve, $910,800 currently, is used to balance our cash flows to meet vendor requirements and payroll. This fund is less than one year old and is monitored carefully so we understand what is happening when revenue from normal property fees and grants and donations need augmentation. Discussions of current and projected uses of this fund were earlier included.

External Financial Support has been a financial priority and in 2013, four facilities aggregating $2 million had been acquired with $1,350,000 in the critically important intermediate area (three to five year) which will be used to warehouse several properties that are improving their performance to the level of favored permanent loan underwriting. An existing bank line of credit of $750,000 has been restructured to make it operationally competitive and both strength and liquidity issues are substantially improved.

There is more to be done.

Our largest property, Russell Apartments, will be sold in a tax credit deal that aggregates $20 million including our $5 million equity and will be the largest LIHTC deal that our agency has transacted. A request to NWA for $300,000 is a part of this compilation. This project, assuming we get the tax credits, will keep us busy for two years. Finally, Strength Matters, the information CUBE, was discussed and we believe that this will be an ever improving financial tool providing valid analysis by external comparison.
Appendix A

Historic Portfolio Strengthening

2010
Two large properties, Jackson Woods Apartments and Saint William Apartments, were sold in the tax credit-oriented transactions which resulted in comprehensive facility rehabilitation for both sites and turning an operating loss into a profit for the year. This significant set of achievements was important for the fundamental stabilization of the Agency. Also, the 16-unit Smoketown Apartments LLC underwent a Mark-to-Market transaction that resulted in improvement in both replacement reserves and long term operational performance and New Directions became the sole owner of the entity that owns the complex.

Grant activity for this fiscal year was strong, including capital grant support from NeighborWorks America providing for more robust agency representation in the Jackson Woods Apartments LLLP redevelopment activity. In 2010-11, New Directions completed a three-year pilot project with Metro United Way, the $1.3 million Bridges to Tomorrow initiative, which had offset staff and facility costs. Two other community initiatives chose New Directions as a fiscal operating agent, providing some small amount of liquidity. The agency had also served as the host for the 2010 Community Leadership Institute, helping to convene a four-day NeighborWorks conference in downtown Louisville with 900 guests. This activity was supported by grant funds by Louisville Metro District Council and area foundations.

2011
The three properties mentioned in 2010 represented the major operational work done in 2011 along with the Brandeis/Pearson consolidation cited in 2012. In addition, cost control in other lines of business was of considerable importance. Foundation sponsorship, ironically, for Resident Services and Community Building and Organizing programs made those lines of business less vulnerable. As part of significant strategic planning, major agency program alignments were established to pursue greater community level outcomes. These internal activities are better described in the Internal Organizational Operations section. Portfolio strengthening and asset management work was intensive, and in 2012, yielded value.

2012
Strengthening moves in 2012 include these strategies:

The Pearson Court/Brandeis HAP Transfer
New Directions made the decision to operationally merge Pearson Court Apartments, Inc. with Brandeis Apartments, Ltd. by recommending to HUD the transfer of the Pearson Court Housing Assistance Program (HAP) contract and moving residents to Brandeis and other subsidized properties. Pearson Court had increasing severe flooding issues that Louisville Metro and its Metropolitan Sewer District were unable to mitigate. The decided course of action included three components:

- As HUD enabled, Pearson Court residents were relocated to comparable subsidized units at no cost to their households. Grant funds had been secured for this activity.

- The HAP contract was, uniquely to HUD, relocated to Brandeis Apartments so ensuring long-term value to residents of low income residing in that facility for 20 years into the future.

- Closing and razing the obsolete Pearson Court facility to create permeable green space in the short term was deemed valuable to the West Saint Catherine Street area which is a part of the Old Louisville Neighborhood. The neighborhood association concurred. Until future development is feasible, the lot will serve as a green commons, which is very agreeable to neighboring residents.

HUD approval for these actions, in part, was conditional on the facility condition at Brandeis, which had undergone a publically funded limited capital improvement project in 2011. Prior to HUD contract transfer, the facility was approved through a REAC inspection. Transfer of the HAP contract all but guarantees strong financial performance at the Brandeis Apartments facility, a 50-unit complex now benefited by federal subsidy for 40 of those units.
Consequently, Brandeis Apartments has been removed from the WATCH list and is projected to contribute $86,558 for agency support in Fiscal Year 2013 as compared to ($74,667) in Fiscal Year 2011, the most recent comparable year.

Reese Court Green Mark-to-Market
This transaction is considered a 2012 event even thought it did not close until July 2012 at HUD’s request. Reese Court had been a marginally performing property. HUD’s periodic assessment of area Fair Market rental rates deemed the property suitable for a Mark-to-Market financial restructure refinancing and subordinate debt restructuring to generate equity for capital improvements which, in Fiscal 2013 will exceed $500,000 in Green improvements, including window replacements in this four-structure historic property. Concurrent benefits to New Directions include the generous condition of the forgiveness of subordinate debt by Kentucky Housing Corporation and the subsequent assignment of new subordinate debt to New Directions as a qualified community-based development organization with tenant endorsement. In its restructure, the cash waterfall can now benefit New Directions. Please refer to the next section for anticipated results.
<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Asset &amp; Property Maintenance</td>
<td>(108,028)</td>
<td>34,075</td>
<td>21,736</td>
<td>(168,773)</td>
<td>(114,344)</td>
<td>150,000</td>
<td>150,000</td>
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<tr>
<td>Community Building &amp; Organizing</td>
<td>69,849</td>
<td>(29,255)</td>
<td>(29,255)</td>
<td>(29,255)</td>
<td>(29,255)</td>
<td>23,935</td>
<td>52,000</td>
<td>50,000</td>
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<td>Resource Development</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td>Home Ownership Preservation</td>
<td>(177,570)</td>
<td>(135,470)</td>
<td>(135,470)</td>
<td>(214,560)</td>
<td>(173,270)</td>
<td>50,000</td>
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<td>Management</td>
<td>200,591</td>
<td>15,809</td>
<td>(54,203)</td>
<td>798,282</td>
<td>(280,170)</td>
<td>25,000</td>
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<td>Real Estate Development</td>
<td>306,875</td>
<td>620,935</td>
<td>620,935</td>
<td>1,168,534</td>
<td>280,515</td>
<td>2,200,000</td>
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<td>Resident Services</td>
<td>(7,720)</td>
<td>(45,470)</td>
<td>(199,050)</td>
<td>(83,929)</td>
<td>10,236</td>
<td>(75,000)</td>
<td>(75,000)</td>
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<tr>
<td>Sub-Total Cash Flow from Lines of Business</td>
<td>295,150</td>
<td>960,618</td>
<td>254,690</td>
<td>1,332,698</td>
<td>(210,359)</td>
<td>2,400,000</td>
<td>2,500,000</td>
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<td></td>
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<tr>
<td>(1) Less Non-Cash Revenue</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>(1,161,144)</td>
<td>0</td>
<td>(2,200,000)</td>
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<tr>
<td>NWA Expendable Initiative Grant (Request)</td>
<td>417,962</td>
<td>210,000</td>
<td>358,500</td>
<td>184,000</td>
<td>150,000</td>
<td>200,000</td>
<td>200,000</td>
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<tr>
<td>Net Cash Flow from LGB's</td>
<td>$703,172</td>
<td>$570,618</td>
<td>$613,190</td>
<td>$358,576</td>
<td>($66,529)</td>
<td>$400,000</td>
<td>$400,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Brandeis Apartments                           | (18,038)   | (74,667)   | (104,948)  | 2,936      | 38,968     | 46,352     | 53,893     |      |         |
| Clifton Court Apartments *                     | 44,467     | (6,960)    | 216,506    | 169,362    | 212,830    | 231,007    | 249,647    |      |         |
| Directores Apartments                          | (70,251)   | (43,980)   | (41,236)   | (35,396)   | 8,670      | 13,530     | 18,583     |      |         |
| Historic Parkland Properties                  | 17,197     | 11,859     | 66,546     | 130,063    | 91,650     | 89,789     | 99,281     |      |         |
| Jackson Woods Apartments                       | 4,450      | 1,379      | 1,618      | 34,733     | 11,940     | 25,662     | 42,613     |      |         |
| O'Connor Square Apartments                     | 41,326     | 98,242     | 53,538     | (3,385)    | 0          | 0          | 0          |      |         |
| Pearson Apartments **                          | 42,492     | 39,405     | 101,032    | 72,367     | 128,180    | 138,856    | 143,766    |      |         |
| Reaser Court Apartments                        | 3,964      | 3,910      | 22,694     | 60,373     | 32,780     | 43,860     | 55,363     |      |         |
| Roosevelt Apartments                           | 178,898    | 176,246    | 488,267    | 417,983    | 435,444    | 468,371    | 603,997    |      |         |
| Shawnee Apartments                             | (296,302)  | 98,362     | 274,022    | 179,134    | 287,820    | 317,710    | 346,198    |      |         |
| Smoketown Apartments                           | 925        | 36,618     | 11,745     | 14,750     | 10,665     | 14,119     | 17,842     |      |         |
| St. Edward Court Apartments                    | (67,412)   | (120,797)  | (87,412)   | (161,773)  | (23,891)   | (38,354)   | (24,337)   |      |         |
| St. John Garden Apartments *                   | 925        | 36,618     | 11,745     | 14,750     | 10,665     | 14,119     | 17,842     |      |         |
| St. William Apartments                         | (3,477)    | 16,419     | 41,918     | 119,568    | 107,120    | 113,412    | 119,820    |      |         |
| Net Cash Flow from Rental Property Operations  | (113,370)  | 234,118    | 1,072,689  | 1,021,635  | 1,311,046  | 1,461,764  | 1,628,103  |      |         |

* Restricted Cash Flow
** Out of Service 2013

Net Cash Flow from Operations: $589,741 $804,736 $1,685,879 $1,377,192 $1,244,617 $1,161,764 $2,028,103

Capital Resources:

| Fifth Third Bank LOC | $750,000 |
| Community Housing Capital ITF | $600,000 |
| Shelby Park Neighborhood ITF | $500,000 |
| FAHE ITF | $750,000 |
| NWA_KY Alliance ITF | $600,000 |
| Total | $2,750,000 |

ITF - Intermediate Term Financing
NDHC - Internal Operating (Cash) Reserv $910,000

Total Liquidity Capacity $3,660,000
### Income Statement - Unaudited

**Period = Jul 2012-Jun 2013**

**Book = Accrual ; Tree = sum_is_fc**

#### Revenue Accounts:
- Rent Revenue: 5,181,007.15
- Grant and Fee Revenue: 2,917,272.39
- Financial Revenue: 1,281,746.73
- Management and Other Fee Revenue: 1,104,207.04
- Development and Consulting Revenue: 358,373.32
- Gain (Loss) Disposal of Property: -411,409.61
- Laundry, Maintenance and Other Fees: 673,620.02
- Gifts and Contributions: 64,718.38

**Total Revenue: 11,169,535.42**

#### Expense Accounts:
- Payroll and Benefits: 2,963,681.63
- Office, Admin and Renting Expense: 549,357.13
- Facility, IT and Accounting: 39,387.72
- Management Fees: 358,163.88
- Legal, Audit and Accounting: 155,262.82
- Project Expenses: 602.27
- On Site Resident Mgr and Admin Expense: 346,186.68
- Utility Expenses: 572,503.28
- Supplies, Contracts, Repairs & Maintenance: 2,666,443.42
- Other Operating Expenses: 100,934.21
- Depreciation and Amortization: 1,089,375.81
- Taxes and Insurance: 254,417.99
- Interest Expense: 691,515.44
- Other Expenses: 587,183.21

**Total Expenses: 10,375,015.49**

**Net Income (Loss): 794,519.93**
### Balance Sheet - Unaudited

**Period = Jun 2013**

**Book = Accrual ; Tree = sum_bs.fc**

<table>
<thead>
<tr>
<th>Asset Accounts</th>
<th>Current Balance</th>
</tr>
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<tbody>
<tr>
<td>Cash</td>
<td>2,839,487.50</td>
</tr>
<tr>
<td>Accounts Receivable, net</td>
<td>2,282,873.11</td>
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<tr>
<td>Prepaid Expenses</td>
<td>1,040,446.48</td>
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<tr>
<td>Escrows and Reserves</td>
<td>3,509,156.70</td>
</tr>
<tr>
<td>Fixed Assets, net</td>
<td>20,976,565.11</td>
</tr>
<tr>
<td>Other Assets</td>
<td>12,944,247.32</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>43,592,776.22</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liability Accounts</th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>1,135,025.35</td>
</tr>
<tr>
<td>Accrued Expenses</td>
<td>861,200.09</td>
</tr>
<tr>
<td>N/P Short Term &amp; Other Current Liabilities</td>
<td>5,466,408.78</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>30,034,570.28</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Equity Accounts</th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner's Equity</td>
<td>2,881,194.00</td>
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<tr>
<td>Unrestricted Net Assets</td>
<td>9,698,643.42</td>
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<tr>
<td>Temporarily Restricted Net Assets</td>
<td>183,848.59</td>
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<tr>
<td>Excess of Revenue Over Expenses</td>
<td>794,519.93</td>
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<tr>
<td><strong>Total Equity</strong></td>
<td><strong>13,558,205.94</strong></td>
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</table>

**Total Liabilities & Equity**

<table>
<thead>
<tr>
<th></th>
<th>Current Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>43,592,776.22</strong></td>
</tr>
</tbody>
</table>