

Audit Committee Meeting  
December 14, 2015  
2:00 PM

**Present:** Chairman Ron Friedman, John D. Bunzel, Larry Diamond, David Haygood, Hank Miller, Greg Santilli (Staff), Cynthia Sewell (Staff).

**Absent:** None.

**Guests:** From Armanino: Tom Schulte, Michael Cantrill, Jeremy Ouaknine (via telephone);  
From New Horizons: Board member Alan Goodstein

**Call to Order**

Chairman Ron Friedman called the meeting to order at 2:05 PM. The minutes of the June 4, 2015 meeting were previously approved and sent.

Each participant introduced themselves.

Mr. Friedman stated that there would be two items to address at today's meeting: first, the presentation of the draft audited financials by Armanino; then the review by the CEO of highly compensated staff positions as required by the Nonprofit Integrity Act of 2004.

He then turned the meeting over to the Armanino representatives to present the draft FY 2015 audited financial statements.

**Opening Comments**

Tom Schulte said that the Non Profit Integrity Act requires at least two meetings of the Audit Committee each year. This is our second meeting.

Mr. Schulte said that the agenda for the exit conference (see Attachment 1) had been previously sent. He noted that the following documents were included with the agenda:

- An Overall Analytical Review comparing FY 2014 and 2015.
- Draft Consolidated Financial Statements.
- Representation letter.
- Governance Letter.
- Internal Control Letter.

The draft financial statements had been emailed to the members of the Audit Committee in advance. Mr. Schulte said that since that time there were further revisions. He distributed a new set of financial statements with the changes highlighted in yellow.

***Overall Analytical Review (Attachment 2 and 3)***

Mr. Schulte then referred to the Overall Analytical Review. He then addressed unusual fluctuations comparing FY 2014 with FY 2015.

In the Statement of Financial Position, he pointed out that there was a net increase in total assets of \$1,125,178, and that cash and cash equivalents increased by 105%. He discussed the loan payoff of the Horizons West land to New Horizons Perpetual Foundation, Inc. which resulted in a reclassification of assets. Pledges receivable is a new line item this year due to the large multi-year pledges that were secured from Jon Murray and John Bunzel. There is \$630,112 that is expected to be paid back from Reseda Ranch, Inc.

The increase in liabilities is due to \$124,000 owed to the construction company that is building the home that is owned by Reseda Ranch, Inc., as well as pass through funds due to North Los Angeles County Regional Center from the State of California.

Ron Friedman asked if there are separate audits for each of the housing corporations and if there are associated Audit Committees. Mike Cantrill explained that each corporation has its own separate audits and Board of Directors. Because gross revenues do not exceed \$2 million an Audit Committee is not required by the Non-Profit Integrity Act. Mr. Friedman asked if the financial results of the separate corporations can be consolidated with New Horizons financial statements. Mr. Cantrill explained that regulations set forth by HUD restrict New Horizons' controls over these separate entities, and thus consolidation is not appropriate.

Mr. Friedman asked if there was a promissory note indicating that \$630,112 is due from Reseda Ranch to New Horizons. Staff indicated that there is no such promissory note currently.

**Action Item**

***Develop and execute the promissory note as described above.***

Mr. Friedman asked if the line of credit in the amount of \$299,042 is used as a revolving line or will it be paid back? Greg Santilli explained that these were the funds used to purchase the Reseda Ranch land and the intention is to pay it back. Mr. Friedman asked if the line of credit is the appropriate term to describe this obligation and is it required to be paid off by the end of the year? Mr. Santilli said that the term is used as designated by Wells Fargo and that it does not need to be paid off at year's end, but rather is required to be paid back at the end of its term in 2018.

Discussion ensued regarding the current portion of notes payable line item and the notes payable, net of current portion line item, as affected by the LA Community Development Department loan payoff subsequent to 6/30/2015.

**Action Item**

***Armanino will increase the current portion of notes payable line item by \$74K, and will correspondingly decrease the notes payable, net of current portion line item, by the same amount.***

In the Statement of Activities it was noted that there was an increase in tuition and fees as well as contributions and grants. Mr. Friedman asked if the clients were required to pay for services. Mr. Santilli said that the majority of the clients programs and services were covered by government funding. There was a \$1.4 million net increase in total revenue.

There were unrealized losses in investment and endowment activity.

Net revenue increased by about \$463,000.

Mr. Cantrill commended the Board on their progress and commitment toward a stronger fundraising emphasis rather than rely solely on government funding. This was noted in the minutes of the Board meetings that were reviewed as well as the financial results of FY 2015.

Mr. Friedman asked that contributed goods and services be explained. Mr. Santilli noted that this covers legal and IT pro bono professional services that are rendered as well as items that are donated that we had planned to purchase.

**FY 2014/2015 Draft Audited Financial Statements** (see Attachment 4)

Tom Schulte pointed out that the presentation of the New Horizons Board designated endowment on page 4 will be adjusted as it currently shows an insignificant negative unrestricted balance.

On page 5, Mr. Schulte noted that the initials for New Horizons Perpetual Foundation would be corrected. He said that when the endowment was in the Foundation, it had both permanently restricted and Board restricted funds. Now, all funds are permanently restricted.

The “due to/due from” for the \$750,000 loan payable to New Horizons Perpetual Foundation historically cancelled out in the consolidated financial statements, but the payoff of the loan in FY 2015 is shown here as an addition to permanently restricted assets.

Mr. Schulte said that there is about a \$13 million annual “burn rate” of cash and that an almost \$2 million cash balance represents just under three months of operating expenses.

It was pointed out that net proceeds from fundraising do not include as revenue goods and services purchased. For example, the revenue from the purchase of a ticket to the Gala would exclude the cost of the dinner.

**Action Item**

***It was pointed out by David Haygood that the header on page 6 did not include the column headings indicated on page 5. Armanino staff agreed to reformat the information on page 6 into page 5 or to include the column headings that Mr. Haygood recommended.***

Mr. Schulte pointed out on page 5, a new line item that indicates changes in net assets from operations (excluding investment and endowment activity).

On page 8, it was noted that we are producing cash from our operating activities - \$1.1M.

Referring to the Notes to the financial statements:

- Note 1– Questions about proactive safety/security measures regarding the campus and Sam’s Café were asked in light of the recent terrorist activities that occurred in a rental building at Inland Regional Center. Ms. Sewell and Mr. Santilli explained the closing of the front Parthenia Street gates during business hours and a campus monitor stationed at the campus entrance gate from the Haskell parking lot.

Mr. Cantrill asked if there was any movement on the possibility of purchasing a HUD group home from Villa Esperanza that he had read about in the Board meeting minutes. Ms. Sewell said that the opportunity was researched and found not be in New Horizons’ best interest.

**Action Item**

***Remove the reference “formerly known as the San Fernando Valley Association for the Retarded, Inc.”***

- Note 2 – Subsequent Events  
Mr. Santilli reiterated that there were no additional subsequent events to recognize or disclose.
- Note 3 – Fair Value Table  
The Fair Value Table is an accounting method established by GAAP and is readily available.
- Note 4 – Accounts Receivable  
The majority of the accounts receivable are government funds due for program services.

**Action Item**

***Hank Miller suggested that the above be specifically indicated in this note and the Committee agreed that this change should be made.***

- Note 7 – Projects in Development

**Action Item**

***A schedule or breakdown was requested of the \$1.7 million projects-in-development.***

- Note 11 – Funds with Deficiencies - Endowment  
In accordance with GAAP, deficiencies were reported in unrestricted net assets that totaled (\$7,036) at the end of the fiscal year.

**Action Item**

***After previous discussion about the insignificant amount of negative unrestricted Endowment assets, and the recommended adjustment, this Funds with Deficiencies section of Note 11 will be deleted.***

Mr. Schulte concluded the presentation on the financial statements referencing the Representation letter (Attachment 5), Governance letter (Attachment 6) and Internal Control Letter (Attachment 7).

- No material weaknesses cited.
- No new accounting policies.
- There were estimates (functional expense allocation and allowances for doubtful accounts).
- No sensitive disclosures.
- There were no disagreements with management.

**Action Item**

***It was moved, seconded and passed to present the financial statements to the Board of Directors, once formalized, for approval (John Bunzel).***

Mr. Schulte concluded by stating that the tax return deadline has been extended through February 15, 2016 and that data collection is currently in process. The HUD electronic submission is currently in process.

**Executive Session**

The staff and Mr. Cantrill were excused and the members of the Audit Committee met with Mr. Schulte.

**Presentation of the Compensation/Performance Evaluation of the CFO and COO**

Armanino representatives were excused and the CEO was invited to return to present the compensation and annual evaluation for the CFO and COO as per the Non-Profit Integrity Act. There were no concerns expressed about the information presented.

There being no further business, the meeting was adjourned at 4:00 pm.

Recorded by Cynthia Sewell, CEO.