NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS AND SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Audit Committee
NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS
North Hills, California

We have audited the accompanying consolidated financial statements of New Horizons: Serving Individuals With Special Needs (the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the U.S. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Horizons: Serving Individuals With Special Needs as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. GAAP.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Armanino LLP

Armanino LLP
Los Angeles, California

December 14, 2016

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

ASSETS

Current Assets		
Cash and cash equivalents	$	1,448,800
Investments		297,101
Accounts receivable, net		2,048,514
Current portion of pledges receivable		65,000
Prepaid expenses and other current assets		113,314
		3,972,729
Noncurrent Assets		
Pledges receivable, net of current portion		110,000
Restricted deposits and funded reserves		272,467
Endowment investments		2,681,122
Due from Reseda Ranch		521,746
Property and equipment, net		4,739,981
	$	12,298,045

See accompanying notes to the consolidated financial statements.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

LIABILITIES AND NET ASSETS

Current Liabilities	
Current portion of notes payable	$ 57,199
Accounts payable and accrued expenses	1,134,548
Deferred revenue	34,167
	1,225,914
Long-Term Liabilities	
Line of credit	389,042
Notes payable, net of current portion	283,957
Total Liabilities	1,898,913
Commitments and Contingencies (Notes 6, 12 and 13)	
Net Assets	
Unrestricted	
General	3,279,861
Investment in land and buildings	4,242,985
	7,522,846
Temporarily restricted	175,000
Permanently restricted	2,701,286
Total Net Assets	10,399,132
	$ 12,298,045

See accompanying notes to the consolidated financial statements.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Gains and Support				
Tuition and fees	$ 10,849,578	$ -	$ -	$ 10,849,578
Workshop projects	1,129,292	-	-	1,129,292
Contributions and grants	664,021	10,000	28,425	702,446
Rents	547,398	-	-	547,398
Food services	393,791	-	-	393,791
Proceeds from fundraising events, net of costs of direct benefit of $114,718	208,337	-	-	208,337
Contributed goods and services	144,578	-	-	144,578
Miscellaneous	131,678	-	-	131,678
Net Assets Released from Restrictions	55,000	(55,000)	-	-
	14,123,673	(45,000)	28,425	14,107,098
Functional Expenses				
Program services	11,795,404	-	-	11,795,404
Management and general	1,235,923	-	-	1,235,923
Fundraising	459,734	-	-	459,734
	13,491,061	-	-	13,491,061
Changes in Net Assets before Investment Activity	632,612	(45,000)	28,425	616,037
Investment Activity				
Interest and dividends, net of fees	781	66,700	-	67,481
Net gains (losses) on investments	(20,164)	(66,700)	-	(86,864)
Net Investment Activity	(19,383)	-	-	(19,383)
Changes in Net Assets	613,229	(45,000)	28,425	596,654
Net Assets, beginning of year	6,909,617	220,000	2,672,861	9,802,478
Net Assets, end of year	$ 7,522,846	$ 175,000	$ 2,701,286	$ 10,399,132

See accompanying notes to the consolidated financial statements.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fundraising	Total
Personnel Expenses				
Staff salaries	$ 6,860,696	$ 740,274	$ 259,988	$ 7,860,958
Client payroll	530,892	-	-	530,892
Consultants	94,108	32,178	56,665	182,951
Payroll taxes	550,837	55,517	19,066	625,420
Employee benefits	659,857	40,697	9,279	709,833
	8,696,390	868,666	344,998	9,910,054
Other Expenses				
Bad debts	-	54,980	-	54,980
Depreciation and amortization	186,929	24,850	2,255	214,034
Food service program	173,113	-	-	173,113
Fundraising	-	-	26,179	26,179
Insurance	566,091	61,501	3,037	630,629
Interest	31,836	-	-	31,836
Miscellaneous	79,458	39,729	19,004	138,191
Office	21,359	12,085	10,626	44,070
Professional fees	143,637	57,042	73	200,752
Repairs and maintenance	220,847	9,580	1,666	232,093
Residential programs	620,821	-	-	620,821
Staff development, recruiting, and other expenses	212,065	37,739	30,414	280,218
Supplies and equipment	106,805	36,071	13,122	155,998
Telephone	92,002	14,559	2,676	109,237
Utilities	211,315	19,121	5,684	236,120
Workshop and center programs	432,736	-	-	432,736
	$ 11,795,404	$ 1,235,923	$ 459,734	$ 13,491,061

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities	
Changes in net assets	$ 596,654
Adjustments to reconcile changes in net assets to net cash provided by operating activities	
Depreciation and amortization	214,034
Net losses on investments	86,864
Increase in allowance for doubtful accounts	28,401
(Increase) decrease in operating assets	
Accounts receivable	(509,908)
Pledges receivable	45,000
Prepaid expenses and other current assets	4,554
Due from Reseda Ranch	108,366
Increase (decrease) in operating liabilities	
Accounts payable and accrued expenses	(303,191)
Deferred revenue	(10,258)
Net Cash Provided by Operating Activities	260,516
Cash Flows from Investing Activities	
Proceeds from sales of investments	1,471,167
Purchases of investments	(1,572,655)
Withdrawals from restricted deposits and funded reserves	33,419
Payments to and interest earned on restricted deposits and funded reserves	(87,007)
Purchases of property and equipment	(152,863)
Net Cash Used in Investing Activities	(307,939)
Cash Flows from Financing Activities	
Principal payments on notes payable	(130,217)
Net borrowings on line of credit	90,000
Net Cash Used in Financing Activities	(40,217)
Net Decrease in Cash and Cash Equivalents	(87,640)
Cash and Cash Equivalents, beginning of year	1,536,440
Cash and Cash Equivalents, end of year	$ 1,448,800

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash Paid during the Year for Interest	$ 32,209

See accompanying notes to the consolidated financial statements.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - NATURE OF OPERATIONS

New Horizons: Serving Individuals With Special Needs ("New Horizons") (www.newhorizons-sfv.org) and its affiliate, New Horizons Perpetual Foundation, Inc. ("NHPF") (collectively, the "Organization"), are California tax-exempt nonprofit corporations providing services to enhance the quality of life for adults with special needs.

New Horizons provides the following services:

- Operates seven residential care facilities for adults with developmental and intellectual disabilities (the "Group Homes") and provides services to five other residential facilities.

- Runs a sheltered workshop program.

- Provides supported employment services where individuals are assisted with obtaining and maintaining employment at community businesses.

- Provides numerous day activity programs including a mobile day program, an art center, a computer learning center, community integration programs, and life skills training and related services.

- Provides supported living services that assist individuals to live independently in their own apartments and homes.

Permanent financing for six of the seven Group Homes is provided by the U.S. Department of Housing and Urban Development ("HUD") which regulates the Group Homes with respect to their rents and operating methods. These six Group Homes also have Section 8 Housing Assistance Payment ("HAP") contracts with HUD.

The six HUD financed Group Homes are combined into HUD Projects as follows:

Group Home #1 - HUD Project No. 122-EH048 and CA16-T781-022

Two Group Homes serving 12 adults with developmental and intellectual disabilities in the San Fernando Valley of California.

Group Home #2 - HUD Project No. 122 EH049 and CA16-T781-023

Two Group Homes serving 12 adults with developmental and intellectual disabilities in the San Fernando Valley of California.

NOTE 1 - NATURE OF OPERATIONS (Continued)

Group Home #3 - HUD Project No.122 EH050 and CA16-T781-024

Two Group Homes serving 12 adults with developmental and intellectual disabilities in the San Fernando Valley of California.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

New Horizons and NHPF are both nonprofit public benefit corporations organized under the laws of California and, as such, are exempt from federal and state income taxes under Internal Revenue Code ("IRC") Section 501(c)(3) and corresponding state provisions.

The Organization's federal informational tax returns for tax years ended June 30, 2013, and subsequent remain open to examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain open to examination by the California Franchise Tax Board for tax years ended June 30, 2012, and subsequent.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of New Horizons, and its affiliate, NHPF. All significant intercompany transactions and balances have been eliminated in consolidation.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted Net Assets, *General* - Include tuition, contributions, and other forms of revenue that are not restricted by the donor or grantor as well as expenditures related to the general operations of the Organization.

Unrestricted Net Assets, Investment in Land and Buildings - Include the investment in land and buildings, net of accumulated depreciation, and net of liabilities secured by or related to the land and buildings.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

Temporarily Restricted Net Assets - Include resources received that are temporarily restricted by the donor, pledges receivable, and accumulated earnings on permanently restricted endowment assets not yet appropriated for expenditure. When the conditions of the donor restrictions are met or the pledges receivable are collected, the net assets of this classification are reclassified to unrestricted net assets. Restricted contributions where restrictions are met in the same reporting period are classified as unrestricted. The Organization's temporarily restricted net assets as of June 30, 2016, consist of the pledges receivable described in Note 5.

Permanently Restricted Net Assets - Include contributions that have been restricted by the donor in perpetuity.

Use of Estimates

Management uses estimates and assumptions in preparing consolidated financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly-liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents temporarily held as part of investment activities are included within investments.

Investments

Investments are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized at the time of the sale of the assets and are computed using the specific identification method.

Accounts Receivable

Accounts receivable are unsecured and the Organization is at-risk to the extent such amounts become uncollectible. The Organization has established an allowance for doubtful accounts based on management's estimates of future collections.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Pledges receivable consist of unconditional promises to give to the Organization. Management anticipates it will collect 100% of the pledges receivable balance; thus, no allowance for potentially uncollectible pledges has been established.

Property and Equipment

Purchases of property and equipment are recorded at cost. Donated items are recorded at fair value when received. Depreciation and amortization on both purchased and donated items are recorded using the straight-line method over the following estimated useful lives:

Buildings and improvements	5 - 40 years
Furniture and fixtures	5 years
Machinery and equipment	3 - 10 years
Automobiles and trucks	5 years

Normal repairs and maintenance are expensed as incurred, whereas significant charges that materially increase values or extend useful lives are capitalized and depreciated over the estimated useful lives of the related assets.

Impairment of Long-Lived Assets

Management reviews each asset or asset group for impairment whenever events or circumstances indicate that the carrying value of an asset or asset group may not be recoverable, but at least annually. No impairment provision was recorded by the Organization during the year.

Endowments

Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. Endowments are described in Note 11.

Deferred Revenue

Deferred revenue consists of prepayments for event space usage and rental payment for a cellular reception tower which is being recognized over the rental period.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods and Services

Contributed goods and professional services have been recorded at fair value at the time of the contribution as follows:

Professional services	$	76,000
Personal care items for residential programs		315
Office supplies		68,263
		144,578
Auction items		22,185 *
	$	166,763

* Included within proceeds from fundraising events on the consolidated statement of activities.

The fair value of other donated volunteer services, totaling approximately 6,700 hours contributed by approximately 400 members of the community, are not reflected in these consolidated financial statements as these other donated volunteer services do not meet the U.S. GAAP criteria for recognition as contributed services.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated accordingly.

Distributions

The Group Homes' regulatory agreements with HUD stipulate the Group Homes will not make distributions of assets or income to any of its officers or directors.

Concentration of Risk

Occasionally the Organization's cash balances exceed FDIC-insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Risk (Continued)

The Organization has two major funding sources (both governmental agencies) that comprise approximately 54% and 21% of its revenue during the year and 40% and 45%, respectively, of its receivables at June 30, 2016. Management anticipates this funding will continue at the present levels.

Subsequent Events

The Organization has evaluated events subsequent to June 30, 2016, to assess the need for potential recognition or disclosure in the consolidated financial statements. Such events were evaluated through December 14, 2016, the date the consolidated financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the consolidated financial statements, except as disclosed in Note 11.

NOTE 3 - INVESTMENTS

The Organization must report its investments at fair value among three categories of price inputs available: quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3).

The following table sets forth by level, within the fair value hierarchy, the Organization's investment assets at fair value as of June 30, 2016:

	Level 1	Level 2	Level 3	Total
Cash equivalents	$ 292,185	$ -	$ -	$ 292,185
Certificates of deposit	100,000	-	-	100,000
Fixed income funds	627,073	-	-	627,073
Equity funds	1,182,985	-	-	1,182,985
Mutual funds	775,980	-	-	775,980
	2,978,223	-	-	2,978,223
Less amount reported as endowment investments	(2,681,122)	-	-	(2,681,122)
	$ 297,101	$ -	$ -	$ 297,101

NOTE 3 - INVESTMENTS (Continued)

Activity in the investments during the year was as follows:

Balance, beginning of the year	$ 2,963,599
Purchases of investments	1,572,655
Proceeds from sales of investments	(1,471,167)
Realized losses on sales of investments	(130,483)
Unrealized gains on investments	43,619
Balance, end of year	$ 2,978,223

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable, due primarily from state of California funding, consists of the following:

Accounts receivable	$ 2,116,427
Allowance for doubtful accounts	(67,913)
	$ 2,048,514

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable consist of the following:

Due in less than one year	$ 65,000
Due in one to five years	110,000
	$ 175,000

The Organization has not discounted pledges receivable as management has determined the impact is not material to the consolidated financial statements.

NOTE 6 - RESTRICTED DEPOSITS AND FUNDED RESERVES

Tenant Deposits Held in Trust

The HUD Projects are required to maintain separate cash accounts for tenants' rental security deposits, totaling $8,279 at June 30, 2016, and are included in restricted deposits and funded reserves on the consolidated statement of financial position.

Replacement Reserves

Group Homes #1, #2 and #3 are required to make monthly deposits of $2,361, $2,456 and $2,448, respectively, to replacement reserves. In accordance with provisions of the regulatory agreements, the replacement reserves are to be used for the replacement of property and equipment with the prior approval of HUD. Replacement reserves at June 30, 2016, total $264,188 and are included in restricted deposits and funded reserves on the consolidated statement of financial position.

Residual Receipts Reserves

The Group Homes are required to make annual deposits to their residual receipts reserves to the extent of their surplus cash, as defined by HUD, to be used for major expenditures of the Group Homes with the prior approval of HUD. During the year ending June 30, 2017, no deposits will be required.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land and improvements	$ 162,911
Buildings and improvements	5,963,418
Projects-in-development	1,714,147
Furniture and fixtures	962,263
Machinery and equipment	1,019,603
Automobiles and trucks	613,410
	10,435,752
Accumulated depreciation and amortization	(5,695,771)
	$ 4,739,981

NOTE 7 - PROPERTY AND EQUIPMENT (Continued)

Projects-in-Development

Horizons West

In 2006, the Organization acquired a parcel of land and a building adjacent to its current location for $1,502,835 and has subsequently incurred additional development expenses totaling $62,087.

The Organization has obtained permits and is developing plans to have the existing building demolished and construction of a new building for the Organization's future program purposes.

Aqueduct

In July 2010, the Organization acquired an additional parcel of land adjacent to its current location for $126,985 and has subsequently incurred additional development expenses totaling $22,240. The potential use and construction of this property has not yet been determined.

Total Projects-in-Development

Horizons West	$ 1,564,922
Aqueduct	149,225
	$ 1,714,147

NOTE 8 - ADVANCES TO AFFILIATED ORGANIZATIONS

The Organization is the sponsoring agency of three other nonprofit organizations (the "Affiliated Organizations") with missions to own and operate residential facilities financed by HUD Section 811 capital grants and other local government sources. The operations are subsidized by HUD Section 811 Project Rental Assistance Contracts. The Organization has made advances to the following Affiliated Organizations:

Rainbow Horizons, Inc. operates two six-client residential homes which were opened in June 1996.	$ 130,855
Discovering Horizons, Inc. operates two six-client residential homes which were opened in October 2003 and June 2004.	465,725
Reseda Horizons, Inc. operates one six-client residential home which was opened in March 2005.	251,491
	848,071
Repayment by the Affiliated Organizations is contingent on the availability of funds and requires HUD's approval. Management has established an allowance for doubtful accounts equal to 100% of the advances.	(848,071)
Net advances	$ -

The Organization earned management fees from these Affiliated Organizations totaling $38,462 during the year.

NOTE 9 - NOTES PAYABLE

Notes payable are detailed as follows:

Note payable to HUD, secured by a first deed of trust on Group Home #1's dwelling for developmentally disabled consumers, with monthly installments of $2,332, including interest at 8.5% per annum, through June 2021.	$ 113,649
Note payable to HUD, secured by a first deed of trust on Group Home #2's dwelling for developmentally disabled consumers, with monthly installments of $2,342, including interest at 8.5% per annum, through June 2021.	114,111
Note payable to HUD, secured by a first deed of trust on Group Home #3's dwelling for developmentally disabled consumers, with monthly installments of $2,327, including interest at 8.5% per annum, through June 2021.	113,396
	341,156
Current portion	(57,199)
	$ 283,957

Future maturities of notes payable are as follows:

Year Ending June 30,	
2017	$ 57,199
2018	62,257
2019	67,757
2020	73,749
2021	80,194
	$ 341,156

NOTE 10 - LINE OF CREDIT

The Organization maintains a $2,050,000 revolving line of credit with a bank, secured by a first deed of trust on New Horizons' business headquarters property and accounts receivable and personal property. At June 30, 2016, there was $389,042 outstanding and the Organization was in compliance with all covenants in connection with the line of credit. The line of credit requires payments of interest only, which are payable monthly at the greater of the bank's prime rate or 4% per annum, and expires in September 2018, at which time all outstanding principal and interest are due.

NOTE 11 - ENDOWMENTS

The Endowment consists of donor-restricted funds classified as permanently restricted net assets. Endowment assets totaling $2,681,122 were invested at Boston Private Bank as of June 30, 2016, in accordance with The Investment Policy Statement ("IPS") for The New Horizons Endowment approved by the New Horizons Board of Directors on March 23, 2016.

Return Objectives and Risk Parameters

It is the general goal of New Horizons to invest the Endowment assets to achieve growth in value over time sufficient to both fund a draw to support operations and preserve the purchasing power of the Endowment, thus protecting it from inflation. Notwithstanding this general goal, it is New Horizons' intent to honor any restrictions placed by donors on the interest and investment earnings on donated funds.

Strategies Employed for Achieving Objectives

In accordance with the IPS, New Horizons is required to maintain an Investment Committee that reports to New Horizons' Finance Committee. The Investment Committee has the responsibility to act to implement and monitor the Endowment in accordance with the IPS.

Additionally, the IPS sets forth criteria and qualifications for the engagement of an investment advisor and investment managers, and delineates respective responsibilities for each. The IPS also includes an asset allocation policy, which requires that the Endowment be allocated among a number of asset classes. As such, New Horizons has adopted asset allocation targets and allowable ranges for each which are defined in an addendum to the IPS, and may be changed with the approval by the Board of New Horizons.

NOTE 11 - ENDOWMENTS (Continued)

Spending Policy

Per the IPS, New Horizons has established a policy of appropriating for annual distribution a discretionary amount no larger than 4% of the prior 12-quarter average balance of the Endowment. Notwithstanding the above policy, the annual draw from the Endowment will be limited to 2% annually of the average balance and will only be taken if New Horizons' fiscal year operating cash flow is less than $0, and no annual draws will be made until such time as the Endowment has, among other requirements, reached an average balance (measured as the average monthly ending balance of the twelve months of a fiscal year) of $5,000,000.

Endowment Net Asset Composition by Type of Fund

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment	$ -	$ -	$ 2,701,286	$ 2,701,286
Accumulated earnings on (deficit in) permanently restricted endowments	(20,164)	-	-	(20,164)
	$ (20,164)	$ -	$ 2,701,286	$ 2,681,122

Changes in Endowment Net Assets During the Year

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance, June 30, 2015	$ -	$ -	$ 2,672,861	$ 2,672,861
Interest and dividend income, net of fees	-	66,700	-	66,700
Net losses on endowment investments	(20,164)	(66,700)	-	(86,864)
Contributions and grants	-	-	28,425	28,425
Balance, June 30, 2016	$ (20,164)	$ -	$ 2,701,286	$ 2,681,122

NOTE 11 - ENDOWMENTS (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor requires the Organization to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature that are reported in unrestricted net assets totaled ($20,164) as of June 30, 2016. These deficiencies resulted from unfavorable market fluctuations as of June 30, 2016, that have reversed as of December 14, 2016.

NOTE 12 - DEFINED CONTRIBUTION PENSION PLAN

The Organization is part of a multiple-employer IRC Section 401(k) defined contribution plan. Employees are eligible to participate in the plan upon completion of 1 year of service with the Organization. Participants of the plan are allowed to have contributions to the plan withheld from their paychecks. The Organization matches 50% of the first 4% of elective participants' contributions, not to exceed 2% of any participant's gross income. The Organization made employer matching contributions totaling $47,543 during the year.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Government Grants

The Organization has received equipment grants from federal and state governments. Under the terms of the grants, the Organization remains liable to the grantors for the return of a portion of the grants, depending on original cost and length of time held, if the Organization should cease to use the equipment for the exempt purposes for which the grants were made. Management believes the likelihood of a liability resulting from these circumstances to be remote.

HUD Section 8 Housing Assistance Payments Contracts

In August 2001, the Group Homes entered into three Section 8 HAP contracts (CA16-T781-022, CA16-T781-023 and CA16-T781-024) with HUD for a period of five years. In August 2014, the Group Homes and HUD extended these contracts for a five-year period, with the amount revised annually. The amount received under the HAP contracts for the year was $324,393.

NOTE 13 - COMMITMENTS AND CONTINGENCIES (Continued)

These contracts provide for a maximum annual rent supplement payment by HUD to the Group Homes. This maximum annual rent supplement payment is subject to adjustment if there are changes in contract rent, number of contract units, or family income of the tenant.

Under current law and public policy, Congress has determined not to renew HAP contracts on a long-term basis. Future renewals of terminating HAP contracts will generally be for a period of one to five years and will tend to be at or below comparable market rate rents in the Group Homes' areas. It cannot be determined what ultimate effect this may have on the Group Homes' future rental revenue and operations.

Lease Commitment

The Organization has entered into various equipment leases through October 2020. Future minimum lease payments under these operating leases are as follows:

Year Ending June 30,	
2017	$ 43,716
2018	24,826
2019	24,826
2020	23,747
2021	7,844
	$ 124,959

Rent expense for the year, included in supplies and equipment and in workshop and center programs on the consolidated statement of functional expenses, totaled $63,598.

Litigation

The Organization is occasionally involved in litigation in the normal course of operations. At this time management is not aware of any material adverse financial consequences resulting from known litigation.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

SINGLE AUDIT REPORTS AND SCHEDULES

FOR THE YEAR ENDED JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Audit Committee
NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS
North Hills, California

We have audited, in accordance with auditing standards generally accepted in the U.S. and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the U.S., the consolidated financial statements of New Horizons: Serving Individuals With Special Needs (the "Organization") (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Armanino LLP

Armanino[LLP]
Los Angeles, California

December 14, 2016

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE

To the Audit Committee
NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS
North Hills, California

Report on Compliance for Each Major Federal Program

We have audited New Horizons: Serving Individuals With Special Needs' (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the U.S.; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Organization as of and for the year ended June 30, 2016, and have issued our report thereon dated December 14, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Armanino LLP

Armanino[LLP]

Los Angeles, California

December 14, 2016

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Section 8 Contract Number	Expenditures of Federal Awards
Major Programs			
U.S. Department of Housing and Urban Development			
Section 8 New Construction and Substantial Rehabilitation			
New Horizons Group Home #1 (HUD Project #122-EH048)	14.182	CA16-T781-022	$ 108,125
New Horizons Group Home #2 (HUD Project #122-EH049)	14.182	CA16-T781-023	105,954
New Horizons Group Home #3 (HUD Project #122-EH050)	14.182	CA16-T781-024	110,314
Total Major Federal Programs			324,393
Non-Major Programs			
U.S. Department of Transportation			
Pass-Through Program from:			
Los Angeles County Metropolitan Transportation Authority			
Federal Transit_Formula Grants	20.507	CA-57-X084	259,004
			259,004
U.S. Department of Housing and Urban Development			
Supportive Housing for the Elderly and Disabled - Direct Loans			
New Horizons Group Home #1 (HUD Project #122-EH048)	14.157	N/A	131,156
New Horizons Group Home #2 (HUD Project #122-EH049)	14.157	N/A	131,690
New Horizons Group Home #3 (HUD Project #122-EH050)	14.157	N/A	130,864
			393,710
Total Non-Major Programs			652,714
Total Federal Expenditures			$ 977,107

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2016

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of the Organization.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

NOTE 3 - THE UNIFORM GUIDANCE

The Uniform Guidance became effective December 26, 2014. Non-Federal entities are not required to implement the reforms to administrative requirements and cost principles until they receive a federal award with terms and conditions that incorporate the Uniform Guidance on or after December 26, 2014.

NOTE 4 - INDIRECT COSTS

The Organization does not use the 10% de minimis cost rate.

NOTE 5 - LOAN BALANCES

The loan balances reported on the schedule of expenditures of federal awards are the July 1, 2015, balances. The loan balances reported on the June 30, 2016, consolidated statement of financial position are as follows:

New Horizons Group Home #1	$ 113,649
New Horizons Group Home #2	114,111
New Horizons Group Home #3	113,396
	$ 341,156

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2016

- A - SUMMARY OF AUDITOR'S RESULTS

1. An unmodified opinion was issued on the consolidated financial statements of New Horizons: Serving Individuals With Special Needs.
2. The audit of the consolidated financial statements disclosed no material weaknesses in internal control over financial reporting; no significant deficiencies not considered to be material weaknesses were reported.
3. The audit of the consolidated financial statements disclosed no instances of noncompliance required to be reported under *Government Auditing Standards*.
4. The audit of compliance with requirements applicable to each major program disclosed no material weaknesses in internal control over compliance with requirements applicable to major programs; no significant deficiencies not considered to be material weaknesses were reported.
5. An unmodified opinion was issued on compliance with requirements applicable to major programs.
6. The audit disclosed no findings required to be reported under the Uniform Guidance.
7. The major program is identified as follows:

Program Title	Federal CFDA Number	Expenditures of Federal Awards
U.S. Department of Housing and Urban Development Section 8 New Construction and Substantial Rehabilitation	14.182	$ 324,393

8. The dollar threshold used to distinguish between Type A and Type B programs was $750,000, as described in the Uniform Guidance.
9. The auditee does qualify as a low-risk auditee under the Uniform Guidance.

- B - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENTS AUDIT

None

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

None

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED JUNE 30, 2016

No corrective action required.

NEW HORIZONS: SERVING INDIVIDUALS WITH SPECIAL NEEDS

SUMMARY OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

- A - FINDINGS AND QUESTIONED COSTS - FINANCIAL STATEMENT AUDIT, JUNE 30, 2015

None

- B - FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAMS AUDIT, JUNE 30, 2015

None