THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES
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YEAR ENDED JUNE 30, 2018

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
The PRE-HAB Foundation, Inc.
dba: A New Leaf Foundation and Subsidiaries
Mesa, Arizona

We have audited the accompanying consolidated financial statements of The PRE-HAB Foundation, Inc. dba: A New Leaf Foundation and Subsidiaries, which comprises the consolidated statement of financial position as of June 30, 2018, 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 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 of America; 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.

Auditors' 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 United States of America. 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 auditors' 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 entity'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 entity'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 financial position of The PRE-HAB Foundation, Inc. as of June 30, 2018, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Phoenix, Arizona
March 27, 2019

THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
JUNE 30, 2018

ASSETS

Cash and Cash Equivalents	$ 1,180,865
Due from Related Party	17,830
Prepaid Expenses and Other Assets	4,159
Investments	1,637,421
Property and Equipment, Net	6,544,023
Guaranteed Loan Asset	62,905
Derivative Financial Instrument - Interest Rate Swap	173
Endowment Assets:	
Cash	150,344
Investments	2,125,996
Promises to Give, Restricted for Endowment, Net	24,837
Total Endowment Assets	2,301,177
Total Assets	$ 11,748,553

LIABILITIES AND NET ASSETS

LIABILITIES	
Due to Related Party	$ 1,648,162
Accounts Payable and Accruals	51,741
Notes Payable	1,350,560
Total Liabilities	3,050,463
NET ASSETS	
Unrestricted:	
Undesignated	4,994,907
Noncontrolling Interest in Partnership	1,402,006
Total Unrestricted	6,396,913
Temporarily Restricted	887,839
Permanently Restricted	1,413,338
Total Net Assets	8,698,090
Total Liabilities and Net Assets	$ 11,748,553

See accompanying Notes to Consolidated Financial Statements.

THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, SUPPORT, AND GAINS				
Contributions	$ 3,988	$ -	$ 1,474	$ 5,462
Riverboat Activities	298,145	-	-	298,145
Bingo Revenue	1,255,988	-	-	1,255,988
Less Cost of Goods Sold	(762,769)	-	-	(762,769)
Net Bingo Revenue	791,364	-	-	791,364
Rental Income	778,595	-	-	778,595
Contributed Rent	69,957			69,957
Change in Value of Derivative Financial Instrument	(3,417)	-	-	(3,417)
Net Investment Return	38,804	87,505	254	126,563
Other Revenue	69,327	-	-	69,327
Total Revenues, Support, and Gains	1,748,618	87,505	1,728	1,837,851
EXPENSES AND LOSSES				
Program Services:				
Property Expenses	1,194,857		-	1,194,857
Other	348,262	-	-	348,262
Total Program Services	1,543,119	-	-	1,543,119
Supporting Services:				
Bingo Games	289,397	-	-	289,397
Riverboat Operations	299,872	-	-	299,872
Management and General	205,313	-	-	205,313
Fundraising and Development	39,236	-	-	39,236
Total Supporting Services	833,818	-	-	833,818
Total Expenses	2,376,937	-	-	2,376,937
CHANGE IN NET ASSETS BEFORE NONCONTROLLING INTEREST	(628,319)	87,505	1,728	(539,086)
Noncontrolling Interest in Partnership Losses	51	-	-	51
CHANGE IN NET ASSETS	(628,268)	87,505	1,728	(539,035)
Net Assets - Beginning of Year	7,025,181	800,334	1,411,610	9,237,125
NET ASSETS - END OF YEAR	$ 6,396,913	$ 887,839	$ 1,413,338	$ 8,698,090

See accompanying Notes to Consolidated Financial Statements.

THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services			Supporting Services				
	Property	Other	Total Program Services	Bingo Games	Riverboat Operations	Management and General	Fundraising and Development	Total
Salaries	$ -	$ -	$ -	$ 86,752	$ 145,548	$ 23,842	$ 21,191	$ 277,333
Payroll Taxes	-	-	-	7,851	12,398	1,848	1,678	23,775
Employee Benefits and Other	-	-	-	2,926	27,777	5,089	2,085	37,877
Professional Services	5,225	-	5,225	1,447	209	40,393	2	47,276
Advertising, Marketing, and Printing	-	-	-	20,709	5,691	125	2	26,527
Supplies and Postage	-	-	-	1,259	12,807	534	27	14,627
Telephone	-	-	-	2,170	1,149	857	40	4,216
Occupancy	20,866	-	20,866	24,244	2,174	4,622	198	52,104
Travel and Vehicles	-	-	-	-	3,551	535	20	4,106
Interest and Bank Charges	-	-	-	9,067	-	94,476	13,886	117,429
Depreciation	459,399	-	459,399	-	-	-	-	459,399
Insurance	5,695	-	5,695	-	10,098	529	42	16,364
Equipment Lease - Repair and Maintenance	20,555	-	20,555	33,229	9,853	486	43	64,166
Bingo	-	-	-	787,846	-	-	-	787,846
Event	-	-	-	-	68,417	61	-	68,478
Miscellaneous Expense	26,246	-	26,246	74,666	200	31,916	22	133,050
Contribution Expense	656,871	348,262	1,005,133	-	-	-	-	1,005,133
Totals	1,194,857	348,262	1,543,119	1,052,166	299,872	205,313	39,236	3,139,706
Less Expenses Included with Revenue on the Statement of Activities								
Bingo Prizes	-	-	-	762,769	-	-	-	762,769
Total Expenses Included in the Expense Section on the Statement of Activities	$ 1,194,857	$ 348,262	$ 1,543,119	$ 289,397	$ 299,872	$ 205,313	$ 39,236	$ 2,376,937

See accompanying Notes to Consolidated Financial Statements.

THE PRE-HAB FOUNDATION, INC.
DBA: A NEW LEAF FOUNDATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ (539,086)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	459,399
Re-Invested Investment Earnings	(10,811)
Realized and Unrealized Loss on Investments	(42,585)
Change in Value on Derivative Financial Instrument	3,417
Contributions Restricted to Endowment	(1,728)
Donation of Property to Related Party	586,894
Noncontrolling interest in Partnership Losses	51
Change in Guaranteed Loan Asset	33,925
Change in Guaranteed Loan Obligation	(66,300)
(Increase) Decrease in Assets:	
Due from Related Party	53,662
Promises to Give	28,356
Prepaid Expenses and Other Assets	(418)
Increase (Decrease) in Liabilities:	
Due to Related Party	(303,125)
Accounts Payable and Accruals	34,906
Net Cash Provided by Operating Activities	236,557
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Investments	(489,715)
Proceeds from Sale of Investments	121,583
Collection of Notes Receivable	562,963
Purchases of Property and Equipment	(86,344)
Net Cash Provided by Investing Activities	108,487
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal Payments on Notes Payable	(335,669)
Change in Cash Held for Endowment	310,791
Net Cash Used by Financing Activities	(24,878)
NET CHANGE IN CASH AND CASH EQUIVALENTS	320,166
Cash and Cash Equivalents - Beginning of Year	860,699
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 1,180,865
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Cash Payment for Interest	$ 57,330
Income Taxes Paid	$ 103,805
SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES	
Donation of Building to Related Party	$ 586,894
Receipt of Investments through Due from Related Party	150,064

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The PRE-HAB Foundation, Inc., dba: A New Leaf Foundation (the Foundation) is a nonprofit organization established to (a) provide facilities to nonprofit organizations at or below market value to operate their programs and (b) to raise funds to assist programs of A New Leaf, Inc. (Leaf). To accomplish its mission, the Foundation owns real property it rents to A New Leaf, Inc. and Mesa Community Action Network, Inc. (Mesa CAN). The Foundation's significant services are listed below:

Riverboat Operations – This fundraising arm leases RV rental spaces to residents of the Sun City area, facility space for special events such as weddings and other celebrations, and operates the Café on site at the Riverboat which service the patrons of the Bingo games.

Bingo Games – This is a charitable bingo operation with net proceeds going to the children, adolescent, and shelter programs of A New Leaf, Inc.

Property – This program maintains the property, plant, and equipment which is owned by the Foundation and leased to other nonprofit organizations.

Principles of Consolidation

The PRE-HAB Foundation dba: A New Leaf Foundation is the sole member of Prospect Park LLC. Prospect Park LLC is the limited partner in the Prospect Park I Limited Partnership with a 99.9% share. The consolidated financial statements include the accounts of the Foundation, Prospect Park LLC, and Prospect Park I Limited Partnership because the Foundation has both control and an economic interest in Prospect Park LLC and Prospect Park I Limited Partnership. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as "the Organization."

Prospect Park I Limited Partnership (Partnership) was formed November 20, 1997, as a limited partnership under the laws of the state of Arizona and shall continue until December 31, 2038, unless dissolved or terminated at an earlier date. It was formed for the purpose of owning and operating a 20-unit housing project in Glendale, Arizona, for victims of domestic violence. Substantially all of the Partnership's income is derived from the rental of its apartment units and commercial space. The project began operations in December 1999. As of June 30, 2016, the limited partner interest was donated to Prospect Park LLC. The value of the donated net assets was $980,367.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Principles of Consolidation (Continued)

The project has qualified and been allocated low-income housing tax credits pursuant to the Internal Revenue Code Section 42, which regulates the use of the complex as to occupant eligibility and unit gross rent, among other requirements, which expire on July 31, 2019. The project must meet the provisions of these regulations during each of fifteen consecutive years in order to continue to qualify to receive the tax credits. Failure to comply with occupant eligibility and/or unit gross rent, or to correct noncompliance within a specified time period could result in recapture of the previously taken low-income housing tax credits plus interest. Such potential noncompliance may require an adjustment to the contributed capital by the limited partners. All units within this project are subject to the rent restrictions and qualified tenant restrictions as required by the Low Income Housing Tax Credit Program.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the consolidated statement of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2018, all promises to give are considered collectible and no allowance has been recorded.

Property and Equipment

Property and equipment additions over $10,000 are recorded at cost, or if donated, at fair value on the date of donation. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 20 years, or in the case of capitalized leased assets or leasehold improvements, the lesser of the useful life of the asset or the lease term. When assets are sold or otherwise disposed of, the cost and related depreciation or amortization are removed from the accounts, and any remaining gain or loss is included in the consolidated statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

The Organization reviews the carrying values of property and equipment for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. There were no indicators of asset impairment during the year ended June 30, 2018.

Investments

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the consolidated statement of financial position. Net investment gain is reported in the consolidated statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees. The Foundation holds private stock for Leaf. The stock is valued on a nonrecurring basis. The Foundation uses a stock valuation called Economic Value Added, which refers to a financial performance methodology developed by Sterns, Stewart & Company and is utilized by a wide variety of public and private companies.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the board of directors for operating reserve and quasi-endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Organization and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Organization's board of directors.

The Organization reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in unrestricted net assets.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets (Continued)

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Organization. The restrictions stipulate that resources be maintained permanently but permit the Organization to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to the Organization's program services, administration, and fundraising and development activities; however, the consolidated financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. The Organization records donated professional services at the respective fair values of the services received.

Advertising Costs

Advertising costs are expensed as incurred and approximated at $26,000 for the year ended June 30, 2018.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes

The Foundation is organized as an Arizona nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and has been determined not to be a private foundation under Section 509(a)(2). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Foundation is annually required to file *a Return of Organization Exempt from Income Tax* (Form 990) with the IRS. In addition, the Foundation is generally subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose. Management has determined the Foundation has no material unrelated business taxable income.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

As an Arizona limited partnership, the Partnership's taxable income or loss is allocated to partners in accordance with the partnership agreement. No income or loss was allocated to Prospect Park LLC. Therefore, no provision for income taxes has been included in the consolidated financial statements related to the Partnership's activities.

Management evaluates its tax positions that have been taken, or are expected to be taken, on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of June 30, 2018, the unrecognized tax benefit accrued was $-0-. The consolidated entity will recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if incurred.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

NOTE 2 PROMISES TO GIVE

Unconditional promises to give are estimated to be collected as of June 30, 2018:

Within one Year	$	16,584
In One to Five Years		10,000
Total		26,584
Less Discount to Net Present Value (4%)		1,747
Promises to Give, Net	$	24,837

At June 30, 2018, two donors accounted for 91% of total promises to give.

Members of the Foundation's board of directors have made contributions and pledges to the Foundation in the current and prior years. At June 30, 2018, gross unconditional pledges receivable from these members total $24,180. During the year ended June 30, 2018, the Foundation recognized contribution revenue from these donors of $-0-.

All promises to give are restricted to the Foundation's endowment account, and as such, are included in permanently restricted net assets.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2018:

Land	$	3,031,311
Buildings		4,596,363
Building Improvements		4,280,911
Equipment		227,347
Vehicles		169,534
Total		12,305,466
Less Accumulated Depreciation		5,761,443
Property and Equipment, Net	$	6,544,023

NOTE 4 FAIR VALUE MEASUREMENTS AND DISCLOSURES

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

NOTE 4 FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation's assessment of the quality, risk or liquidity profile of the asset or liability.

The Foundation's investment assets are classified within Level 1 because they are comprised of open-end mutual funds and money market funds with readily determinable fair values based on daily redemption values.

The following table presents assets measured at fair value on a recurring and nonrecurring basis for year ending June 30, 2018:

	Level 1	Level 2	Level 3	Total
Recurring:				
Mutual Funds:				
U.S. Equities	$ 1,161,527	$ -	$ -	$ 1,161,527
Fixed Income	1,030,442	-	-	1,030,442
Real Estate	58,015	-	-	58,015
Commodities	49,954	-	-	49,954
Cash Included in Endowment Investments	-	-	-	38,640
Interest Rate Swap Asset	-	-	173	173
Total Assets at Fair Value Value - Recurring	$ 2,299,938	$ -	$ 173	$ 2,338,751
Nonrecurring:				
Private Stock	$ -	$ -	$ 1,424,839	$ 1,424,839

Net investment return consisted of the following at June 30, 2018:

Interest and Dividends	$ 83,978
Net Realized and Unrealized Gains	42,585
Total	$ 126,563

NOTE 4 FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

The following table presents a rollforward of activity for investments measured at fair value using significant unobservable inputs (Level 3) for the year ended June 30, 2018:

Beginning Balance	$ 3,590
Total Losses (Realized/Unrealized) Included in Changes in Net Assets	(3,417)
Ending Balance	$ 173
Change in Unrealized Losses for the Period Included in the Change in Net Assets	$ (3,417)

NOTE 5 GUARANTEED LOAN OBLIGATION

The Foundation has guaranteed certain debt obligations totaling $3,314,988 during the year ended June 30, 2017 for La Mesita Apartments Phase 3, LP (La Mesita). This liability was relieved during June 30, 2018 when it was paid off by La Mesita.

NOTE 6 NOTES PAYABLE

Notes payable consist of the following for June 30, 2018:

Description	
Note payable, due in monthly installments of $25,808, plus interest at LIBOR plus 2.05% (4.12% at June 30, 2018), with a maturity in April 2022, secured by property and equipment and is additionally guaranteed by Leaf.	$ 1,350,560
Total	$ 1,350,560

Future maturities of notes payable are as follows:

Year Ending June 30,	Amount
2019	$ 334,814
2020	347,068
2021	358,570
2022	310,108
Total	$ 1,350,560

NOTE 6 NOTES PAYABLE (CONTINUED)

Leaf has guaranteed the debt obligations of the Foundation. Leaf does not anticipate default by the Foundation. The asset is presented as guaranteed loan asset in the amount of $62,905 as of June 30, 2018, in the accompanying consolidated statement of financial position. Reduction of the asset from repayment of the debts by the Foundation is recognized as contribution expense in the accompanying consolidated statement of activities.

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENT: INTEREST RATE SWAP

In April 2012, the Foundation entered into an interest rate swap agreement that effectively converted approximately $2,000,000 of the Foundation's LIBOR-based variable-rate debt to a fixed rate. The counterparty to the swap agreement is the bank (a major U.S. financial institution) that holds the Foundation's LIBOR-based variable-rate debt. Under the swap agreement, the Organization pays interest on the notional value at a fixed rate of 1.57% and, in return, receives interest on the notional value at a variable rate based on one-month LIBOR rate (1.22% at June 30, 2018). The net effect of the swap is to fix the interest rate on $3,170,000 of the Foundation's LIBOR-based variable-rate debt payable at 1.57%.

The interest rate swap agreement qualifies as a cash flow hedge, and accordingly, the fair value of the interest rate swap agreement, which is adjusted regularly, is recorded in the Foundation’s statement of financial position as an asset or liability, as necessary, with a corresponding adjustment to other charges. The fair value of the Foundation's interest rate swap at June 30 2018, was an asset totaling $173. The unrealized holding loss on the interest rate swap was $3,417 for the period ending June 30, 2018.

NOTE 8 ENDOWMENTS

The Foundation’s Endowment (the Endowment) consists of funds established by donors to provide long-term sustainability for the Foundation’s operations. Net assets associated with Endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTE 8 ENDOWMENTS (CONTINUED)

Arizona Management of Charitable Funds Act (AMCFA) is requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted Endowment funds, unless there are explicit donor stipulations to the contrary. At June 30, 2018, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment (including promises to give net of discount and allowance for doubtful accounts, and (c) accumulations to the Endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted Endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by Arizona Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Foundation considers the following factors in making a determination to appropriate or accumulate donor- restricted Endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted Endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

As of June 30, 2018, the Foundation had the following Endowment net asset composition by type of fund:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted for Endowment	$ -	$ 887,839	$ 1,413,338	$ 2,301,177
Total	$ -	$ 887,839	$ 1,413,338	$ 2,301,177

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the Endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. Actual returns in any given year may vary from this amount. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). As of June 30, 2018, a significant portion of the funds are invested to seek growth of principal over time.

NOTE 8 ENDOWMENTS (CONTINUED)

Investment and Spending Policies (Continued)

The Foundation uses an Endowment spending-rate formula to determine the amount to spend from the Endowment each year. The rate, determined and adjusted from time to time by the board of directors, is applied to the average fair value of the Endowment investments for the prior 12 quarters at December 31 of each year to determine the spending amount for the upcoming year. In establishing this policy, the Foundation considered the long-term expected return on the Endowment, and set the rate with the objective of maintaining the purchasing power of the Endowment over time. During 2018, the spending rate was 0.00% because the board of directors has established a policy that there shall be no expenditures until such time as the Endowment's corpus, including investment return earned up until that point, reaches $5,000,000.

Changes in Endowment net assets for the year ending June 30, 2018 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Net Assets - Beginning of Year	$ -	$ 800,334	$ 1,411,610	$ 2,211,944
Investment Income, Net of Fees	-	87,505	254	87,759
Contributions	-	-	1,474	1,474
Distributions:				
Appropriation of Endowment Assets				-
Pursuant to Spending-Rate Policy	-	-	-	-
Endowment Net Assets - End of Year	$ -	$ 887,839	$ 1,413,338	$ 2,301,177

NOTE 9 RESTRICTED NET ASSETS AND NONCONTROLLING INTEREST IN PARTNERSHIP

Noncontrolling Interest in Partnership

The change in consolidated unrestricted net assets attributed to noncontrolling interest in partnership consists of the following at June 30, 2018:

	Controlling Interest	Noncontrolling Interest	Total
Balance - July 1, 2017	$ 981,926	$ 1,402,057	$ 2,383,983
Partnership Losses	(57,595)	(51)	(57,646)
Balance - June 30, 2018	$ 924,331	$ 1,402,006	$ 2,326,337

Temporarily Restricted

Temporarily restricted net assets consist of the following at June 30, 2018:

Restricted by Donors for:	
Earnings on Endowment	$ 887,839

NOTE 9 RESTRICTED NET ASSETS AND NONCONTROLLING INTEREST IN PARTNERSHIP (CONTINUED)

Permanently Restricted

Permanently restricted net assets consist of Endowment funds restricted by donors for investment in perpetuity, and promises to give that once received are restricted by donors for investment in perpetuity. Distributions from perpetual trusts and earnings on Endowment funds are available for the purposes specified by the donors, or in certain cases, for the unrestricted use of the Foundation, in accordance with the Foundation's spending policy.

NOTE 10 LEASING ACTIVITY

The Foundation leases bingo equipment under an operating lease that expires in June 30, 2019. The term of the lease is for a year. Total rent expense for the year ended June 30, 2018 totaled $31,200.

The Foundation is the lessor of office and storage space under various operating leases, the majority of which are on a month-to-month basis and are exclusively rented to Leaf and Mesa CAN, both of which are related parties. Property under operating leases was as follows at June 30, 2018:

Buildings	$ 4,596,363
Less Accumulated Amortization	(1,770,005)
Leasing Activity, Net	$ 2,826,358

Future minimum receipts on cancelable leases are as follows for June 30, 2018:

Year Ending June 30,	Amount
2019	$ 875,313
2020	349,508
2021	42,309
2022	1,744
Total	$ 1,268,874

Total lease income for the year ended June 30, 2018 totaled $872,420.

NOTE 11 EMPLOYEE BENEFITS

Most of the Foundation's full-time employees are leased from Leaf, and as such, are covered by the benefits of Leaf. The Foundation reimburses Leaf for the costs of these employees, including all benefits and related expenses.

NOTE 12 RELATED PARTY TRANSACTIONS

Leaf provides management and support services for the Foundation for which the Foundation reimburses Leaf. As noted in Note 11, the Foundation leases most of its employees from Leaf. Total reimbursements for management and support services and payroll paid to Leaf during the year ended June 30, 2018 totaled $334,005 and are included in the accompanying consolidated statement of functional expenses. As of June 30, 2018, net amounts owed to Leaf were $82,170. These amounts include program donations approved by the Foundation’s board of directors but not paid as of year-end, as well as lease payments, management and support services.

The Foundation donates to Leaf a portion of the proceeds from its bingo operations, which consisted of $206,630 during the year ended June 30, 2018. In addition, the Foundation contributed $138,520 for startup costs for Leaf’s integrated care program and $3,112 as an unrestricted contribution during the year ended June 30, 2018.

The Foundation leases real property to Leaf. Rental income under these leases amounted to $801,572 for the year ended June 30, 2018.

On July 1, 2015, the Foundation authorized an unrestricted contribution to Leaf in the amount of $1,000,000. The contribution is to be paid over a period of time not to exceed three years; however there was a remaining balance at year-end. As of June 30, 2018 Foundation owed Leaf $6,872 related to this contribution.

The Foundation holds stock that is attributable to Leaf. Management intends to transfer this stock to Leaf. The amount included in due to related party related to this stock totaled $1,491,596 for the year ended June 30, 2018.

During the year ended June 30, 2018, the Foundation donated a building to Leaf valued $586,984.

Mesa CAN shares common management and staff with the Foundation. Additionally, Mesa CAN rents certain real property from the Foundation. Total rental income from Mesa CAN was $70,848 for the year ended June 30, 2018. As of June 30, 2018, Mesa CAN owed $-0- to the Foundation for rent and other intercompany balances.

In prior years, the Partnership received $100,000 from A New Leaf, Inc. The proceeds were used to repay a construction loan. In lieu of making monthly payments, the Partnership reduces the amount due to Leaf by the monthly commercial rent due. As of June 30, 2018, outstanding amounts due to Leaf were $49,694. These amounts are included in due to related party on the consolidated statement of financial position.

NOTE 13 SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through March 27, 2019, the date the consolidated financial statements were available to be issued.

On September 27, 2018 and then subsequently updated on November 15, 2018, The Foundation guaranteed Leaf's $1,000,000, revolving line of credit, which bears interest at an adjustable rate equal to the bank's Prime Rate, 5.25% plus 0.5%. The line of credit is secured by all inventory, chattel paper, rental income, equipment, and general intangibles of the Leaf. The line of credit has certain covenants that apply to both the Leaf and the Foundation. The line of credit expires on November 30, 2019.

As of March 2019, the balance of the line of credit is $1,000,000.

In March 2019, the Foundation sold a portion of the private stock for $900,000.

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued Accounting Standards Update 2016-14, *Not-For-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which is expected to impact the information presented in financial statements and notes about a nonprofit entity's liquidity, financial performance, and cash flows. The guidance is required to be applied by the Foundation for the fiscal year ending June 30, 2019.

In May 2014, the FASB issued amended guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance requires the Organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The guidance also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Additionally, qualitative and quantitative disclosures are required regarding customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. The guidance will initially be applied retrospectively using one of two methods. The standard will be effective for the Foundation for the year ending June 30, 2020; however, early application is permitted.

The FASB issued Accounting Standards Update (ASU) No. 2018-08 on June 21, 2018. This update clarifies and improves the scope and the accounting guidance for contributions received and contributions made. This ASU distinguishes between contributions and exchange transactions and assists in determining which guidance to apply. For contributions, the guidance in Subtopic 958-605, *Not-for-Profit Entities–Revenue Recognition*, should be followed. For exchange transactions, Topic 606, *Revenue from Contracts with Customers,* should be followed. To determine which guidance should be followed, grant documents have to be carefully analyzed. The standard will be effective for the Foundation for the year ending June 30, 2020; however, early application is permitted.

NOTE 14 NEW ACCOUNTING PRONOUNCEMENTS (CONTINUED)

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and finance leases with lease terms greater than one year. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities. The guidance will initially be applied using a modified retrospective approach. The standard will be effective for the Foundation for the year ending June 30, 2021; however, early application is permitted.