

A NEW LEAF COTTAGES, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018



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**A NEW LEAF COTTAGES, INC.
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INDEPENDENT AUDITORS' REPORT

Board of Directors
A New Leaf Cottages, Inc.
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of A New Leaf Cottages, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

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

Board of Directors
A New Leaf Cottages, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of A New Leaf Cottages, Inc. as of June 30, 2019 and 2018, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, management adopted Accounting Standards Update No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. Our conclusion is not modified with respect to that matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2019, on our consideration of the A New Leaf Cottages, Inc.'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the A New Leaf Cottages, Inc.'s 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 A New Leaf Cottages, Inc.'s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Phoenix, Arizona
August 19, 2019

A NEW LEAF COTTAGES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and Cash Equivalents	\$ 103,387	\$ 59,006
Cash - Funded Reserves	240,320	223,334
Accounts Receivable, Net	459	26
Prepaid Expenses and Other Assets	5,398	6,138
Property and Equipment, Net	1,589,830	1,643,534
Total Assets	\$ 1,939,394	\$ 1,932,038
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts Payable	\$ 5,105	\$ 5,845
Accrued Expenses and Other Liabilities	11,201	10,284
Notes Payable	1,929,025	1,929,025
Total Liabilities	1,945,331	1,945,154
NET ASSETS (DEFICIT)		
Without Donor Restrictions (Deficit)	(5,937)	(13,116)
Total Liabilities and Net Assets (Deficit)	\$ 1,939,394	\$ 1,932,038

See accompanying Notes to Financial Statements.

**A NEW LEAF COTTAGES, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
REVENUES, SUPPORT, AND GAINS		
Rental Income	\$ 161,489	\$ 161,956
Contributions	3,364	1,440
Other	7,868	4,299
Total Revenues, Support, and Gains	172,721	167,695
EXPENSES		
Program Services:		
Residential	144,311	149,826
Supporting Services:		
Management and General	21,231	46,169
Total Expenses	165,542	195,995
CHANGES IN NET ASSETS (DEFICIT)	7,179	(28,300)
Net Assets (Deficit) - Beginning of Year	(13,116)	15,184
NET ASSETS (DEFICIT) - END OF YEAR	\$ (5,937)	\$ (13,116)

See accompanying Notes to Financial Statements.

A NEW LEAF COTTAGES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services	Supporting Services	Total
	Residential	Management and General	
Management Fees	\$ 6,000	\$ 6,000	\$ 12,000
Client Assistance	7,241	-	7,241
Depreciation	53,704	-	53,704
Insurance	2,589	-	2,589
Licenses and Permits	201	-	201
Miscellaneous	417	-	417
Professional Services	308	15,231	15,539
Repairs and Maintenance	12,188	-	12,188
Salaries	25,057	-	25,057
Supplies	8,226	-	8,226
Utilities	28,380	-	28,380
Total Functional Expenses Included in the Statements of Activities	<u>\$ 144,311</u>	<u>\$ 21,231</u>	<u>\$ 165,542</u>

See accompanying Notes to Financial Statements.

A NEW LEAF COTTAGES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services	Supporting Services	Total
	Residential	Management and General	
Management Fees	\$ 16,790	\$ 16,789	\$ 33,579
Client Assistance	9,884	-	9,884
Depreciation	53,734	-	53,734
Insurance	10,277	-	10,277
Licenses and permits	2,988	-	2,988
Miscellaneous	4,794	-	4,794
Professional Services	2,941	29,380	32,321
Repairs and Maintenance	8,694	-	8,694
Supplies	1,134	-	1,134
Utilities	38,590	-	38,590
Total Functional Expenses Included in the Statements of Activities	<u>\$ 149,826</u>	<u>\$ 46,169</u>	<u>\$ 195,995</u>

See accompanying Notes to Financial Statements.

**A NEW LEAF COTTAGES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets (Deficit)	\$ 7,179	\$ (28,300)
Adjustments to Reconcile Changes in Net Assets (Deficit) to Net Cash Provided (Used) by Operating Activities		
Depreciation	53,704	53,734
Bad Debt Expense (Recovery)	-	-
(Increase) Decrease in Assets:		
Accounts Receivable	(433)	158
Prepaid Expenses and Other Assets	740	(2,589)
Increase (Decrease) in Liabilities:		
Accounts Payable	(740)	(2,682)
Accrued Expenses and Other Liabilities	917	5,087
Due To Related Party	-	(43,380)
Net Cash Provided (Used) by Operating Activities	61,367	(17,972)
NET CHANGE IN CASH AND CASH EQUIVALENTS	61,367	(17,972)
Cash and Cash Equivalents - Beginning of Year	282,340	300,312
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 343,707	\$ 282,340
Cash and Cash Equivalents Consist of the following:		
Cash and Cash Equivalents	\$ 103,387	\$ 59,006
Cash - Funded Reserves	240,320	223,334
Total Cash and Cash Equivalents	\$ 343,707	\$ 282,340

See accompanying Notes to Financial Statements.

**A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

A New Leaf Cottages, Inc. (Cottages) is an Arizona nonprofit corporation. Cottages' mission is to provide housing needs to individuals and families in need. Cottages is the developer of Desert Leaf Apartments (the Apartments). The Apartments are a 20-unit apartment complex, which includes onsite supportive services. Nineteen of the units will be leased and one unit will be used for community services and delivery space. Cottages also owns a home, Contessa, which is available for single-family living.

A New Leaf Cottages (Cottages) board of directors voted on March 27, 2019 to have the parent company A New Leaf (Leaf) take over board responsibilities and monitoring. A New Leaf Cottages, Inc. maintained its own 501(c)(3) status and will operate as an affiliate of Leaf and will be reported as a consolidated affiliate in Leaf's consolidated financial statements for the year ended June 30, 2019.

Cash and Cash Equivalents

Cottages 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.

Funded Reserves

As required by loan agreements, Cottages has established funded operating and replacement reserves with a balance of \$234,183 and \$218,222 at June 30, 2019 and 2018, respectively. For the years ended June 30, 2019 and 2018, Cottages held a separate cash account to fund tenant security deposits with a balance of \$6,137 and \$5,112. The balance of the security deposit cash account has been included in the funded reserves total in the statements of financial position.

Receivables and Credit Policies

Accounts receivable consist primarily of noninterest-bearing amounts due from tenants. Management determines the allowance for uncollectable accounts receivable based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectable. At June 30, 2019 and 2018, the allowance was \$-0- and \$1,400, respectively.

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 15 to 35 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 statements of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued)

Cottages 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 years ended June 30, 2019 and 2018.

Basis of Presentation

The Organization's financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to nonprofit organizations. The Organization is required to report information regarding its financial position and activities according to two classes of net assets: nets assets without donor restrictions and net assets with donor restrictions.

Net Assets

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

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) - imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned. Rent income from tenants and tenant assistance payments are recognized in the month in which it is earned rather than received. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

Functional Allocation of Expenses

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

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

Cottages is organized as an Arizona nonprofit corporation and has been recognized by the 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)(1). Accordingly, contributions to it qualify for the charitable contribution deduction under Section 170(b)(1)(A). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization 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 Cottages has no taxable unrelated business income and it has not filed an Exempt Organization Business Income Tax Return, IRS Form 990-T, or the Arizona equivalent, Form 99-T.

Management believes that it has appropriate support for any income tax positions taken, and, as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of 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 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.

Changes in Accounting Principle

The Organization adopted Financial Accounting Standards Board (FASB) ASU 2016-14, *Note-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. The adoption did not impact the Organization's financial position as of June 30, 2019 or the changes in its net assets or cash flows for the year then ended.

Subsequent Events

Cottages has evaluated subsequent events through August 19, 2019, the date the financial statements were available to be issued.

**A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018**

NOTE 2 LIQUIDITY AND AVAILABILITY

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities to be general expenditures.

The following table reflects the Organization's financial assets as of June 30, 2019, available to meet general expenditures within one year of the statement of financial position date.

Financial Assets at Year-End:	
Cash and Cash Equivalents	\$ 343,707
Accounts Receivable	459
Total Financial Assets	<u>344,166</u>
Less Amounts not Available to be Used Within One Year:	
Cash Funded Reserves	<u>(240,320)</u>
Financial Assets available to meet cash needs for general expenditures within one year	<u>\$ 103,846</u>

There were no net assets with donor restrictions nor contractual restrictions or internal board designations at June 30, 2019.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 136,125	\$ 136,125
Buildings and Building Improvements	1,810,906	1,810,906
Total	<u>1,947,031</u>	<u>1,947,031</u>
Less: Accumulated Depreciation	<u>357,201</u>	<u>303,497</u>
Property and Equipment, Net	<u>\$ 1,589,830</u>	<u>\$ 1,643,534</u>

NOTE 4 NOTES PAYABLE

Notes payable consists of a Neighborhood Stabilization Program (NSP) loan payable to the City of Phoenix, a NSP loan payable to the City of Mesa, a loan payable to Magellan Health Services of Arizona (Magellan), and a loan payable to the City of Mesa of which all are collateralized by real property.

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 4 NOTES PAYABLE (CONTINUED)

The loan payable to the City of Phoenix was funded on January 23, 2012. The loan will bear interest at 0% per annum for a term of 30 years so long as housing remains available for the purpose of providing support to chronic homeless with special needs. Upon completion of the 30-year term, the entire balance of the loan will be forgiven upon compliance with the terms and conditions of the loan. If compliance terms are not met, at the option of the City of Phoenix, an interest rate of 8% per annum may be charged on the outstanding loan balance. As of June 30, 2019 and 2018, the outstanding loan balance was \$1,300,000.

The loan payable to the City of Mesa was funded on May 9, 2012. The loan will bear interest at 0% per annum for a term of 15 years so long as housing remains available for the purpose of providing support to chronic homeless with special needs. Upon completion of the 15-year term, the entire balance of the loan will be forgiven upon compliance with the terms and conditions of the loan. If compliance terms are not met, at the option of the City of Mesa, an interest rate of 5% per annum may be charged on the outstanding loan balance. As of June 30, 2019 and 2018, the outstanding loan balance was \$159,025.

The loan payable to Magellan was funded in November 2012. The loan will bear interest at 0% per annum for a term of 25 years so long as housing remains available for the purpose of providing support to chronic homeless with special needs. Upon completion of the 25-year term, the entire balance of the loan will be forgiven upon compliance with the terms and conditions of the loan. As of June 30, 2019 and 2018, the outstanding loan balance was \$325,000.

The loan payable to City of Mesa was funded on January 18, 2008. The loan will bear interest at 0% per annum for a term of 15 years so long as housing remains available for low-income housing. Upon completion of the 15-year term, the entire balance of the loan will be forgiven upon compliance with the terms and conditions of the loan. If compliance terms are not met, at the option of the City of Mesa, an interest rate of 5% per annum may be charged on the outstanding loan balance. As of June 30, 2019 and 2018, the outstanding loan balance was \$145,000.

NOTE 5 RELATED PARTY TRANSACTIONS

A New Leaf, Inc. (Leaf), a 501(c)(3) organization, provides management and support services for Cottages. During the years ended June 30, 2019 and 2018, Cottages made payments of \$-0- and \$43,380, respectively, to Leaf.

