



Financial Statements
June 30, 2017 and 2016

A New Leaf Cottages, Inc.

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Independent Auditor's Report

The Board of Directors
A New Leaf Cottages, Inc.
Mesa, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of A New Leaf Cottages, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, 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.

Auditor's 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 auditor's 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.

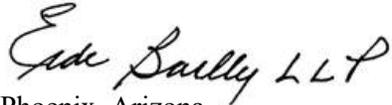
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated September 14, 2017 on our consideration of 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, 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 results of that testing, and not to provide an opinion on the effectiveness of 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.

A handwritten signature in black ink that reads "Eric Sully LLP". The signature is written in a cursive, flowing style.

Phoenix, Arizona
September 14, 2017

A New Leaf Cottages, Inc.
 Statements of Financial Position
 June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 78,665	\$ 93,272
Cash, funded reserves	221,647	199,164
Accounts receivable, net	184	-
Prepaid expenses and other assets	3,549	3,549
Property and equipment, net	1,697,268	1,751,002
Total assets	\$ 2,001,313	\$ 2,046,987
Liabilities and Net Assets		
Accounts payable	\$ 8,527	\$ 3,280
Accrued expenses and other liabilities	4,996	5,212
Due to related party	43,581	64,380
Notes payable	1,929,025	1,929,025
Total liabilities	1,986,129	2,001,897
Unrestricted Net Assets	15,184	45,090
Total liabilities and net assets	\$ 2,001,313	\$ 2,046,987

A New Leaf Cottages, Inc.
 Statements of Activities
 Years Ended June 30, 2017 and 2016

	2017	2016
Revenue, Support, and Gains		
Rental income	\$ 152,226	\$ 148,969
Contributions	2,791	-
Other	9,189	5,703
Total revenue, support, and gains	164,206	154,672
Expenses		
Program services expense		
Residential	192,083	226,471
Supporting services expense		
Management and general	2,029	921
Total expenses	194,112	227,392
Change in Net Assets	(29,906)	(72,720)
Unrestricted Net Assets, Beginning of Year	45,090	117,810
Unrestricted Net Assets, End of Year	\$ 15,184	\$ 45,090

A New Leaf Cottages, Inc.
 Statements of Functional Expenses
 Years Ended June 30, 2017 and 2016

	2017			2016		
	Program Services	Supporting Services	Total	Program Services	Supporting Services	Total
	Residential	Management and General		Residential	Management and General	
Management Fees	\$ 33,181	\$ -	\$ 33,181	\$ 46,913	\$ -	\$ 46,913
Client Assistance	13,067	-	13,067	14,371	-	14,371
Depreciation	53,734	-	53,734	53,704	-	53,704
Insurance	10,461	-	10,461	8,675	-	8,675
Licenses and Permits	80	-	80	50	-	50
Miscellaneous	1,386	-	1,386	339	-	339
Professional Services	29,605	1,259	30,864	54,716	30	54,746
Repairs and Maintenance	11,644	-	11,644	11,973	-	11,973
Supplies	-	770	770	-	891	891
Utilities	38,925	-	38,925	35,730	-	35,730
Total expenses included in the statements of activities	<u>\$ 192,083</u>	<u>\$ 2,029</u>	<u>\$ 194,112</u>	<u>\$ 226,471</u>	<u>\$ 921</u>	<u>\$ 227,392</u>

A New Leaf Cottages, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Change in net assets	\$ (29,906)	\$ (72,720)
Adjustments to reconcile change in net assets to net cash from (used for) operating activities		
Depreciation	53,734	53,704
Bad debt expense	975	-
Changes in operating assets and liabilities		
Accounts receivable	(1,159)	-
Accounts payable	5,247	(4,459)
Accrued expenses and other liabilities	(216)	601
Due to related party	(20,799)	17,953
	7,876	(4,921)
Net Cash from (used for) Operating Activities		
Cash Flows from Investing Activities		
Deposits to funded reserves	(22,483)	(6,000)
	(22,483)	(6,000)
Net Cash used for Investing Activities		
Net Change in Cash and Cash Equivalents	(14,607)	(10,921)
Cash and Cash Equivalents, Beginning of Year	93,272	104,193
Cash and Cash Equivalents, End of Year	\$ 78,665	\$ 93,272

Note 1 - Principal Activity and 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. Cottages is the sole member of the Desert Leaf Apartments LLC (the LLC).

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

Cottages has established funded operating and replacement reserves with a balance of \$216,863 and \$199,164 at June 30, 2017 and 2016, respectively. For the year ended June 30, 2017, Cottages has also established a separate cash account to fund tenant security deposits in the amount of \$4,784. The balance of the security deposit cash account has been included in the funded reserves total in the statement 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, 2017 and 2016, the allowance was \$975 and \$0, 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.

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, 2017 and 2016.

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.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of Cottages and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by Cottages' Board of Directors. Cottages does not have any temporarily restricted net assets.

Cottages 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 statements of activities as net assets released from restrictions.

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 Cottages. The restrictions stipulate that resources be maintained permanently but permit Cottages to expend the income generated in accordance with the provisions of the agreements. Cottages does not have any permanently restricted net assets.

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.

Income Taxes

Cottages 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)(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 generally accepted accounting principles 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.

Subsequent Events

Cottages has evaluated subsequent events through September 14, 2017, the date the financial statements were available to be issued.

Note 2 - Property and Equipment

Property and equipment consists of the following at June 30, 2017 and 2016:

	2017	2016
Land	\$ 136,125	\$ 136,125
Buildings and building improvements	1,810,906	1,810,906
	1,947,031	1,947,031
Less accumulated depreciation	(249,763)	(196,029)
	\$ 1,697,268	\$ 1,751,002

Note 3 - 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.

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 and 2016, the outstanding loan balance was \$325,000.

The loan payable to City of Mesa was funded on January 18, 2008; however, the loan and property associated with the loan were transferred to A New Leaf, Inc. (Leaf) in a prior year and transferred back to Cottages during the year ended June 30, 2015. 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, 2017 and 2016, the outstanding loan balance was \$145,000.

Note 4 - Related Party Transactions

Leaf, a 501(c)(3) organization, provides management and support services for Cottages. During the years ended June 30, 2017 and 2016, Leaf contributed \$201 and \$17,953, respectively, to Cottages for operating costs. During the same years, Cottages made payments of \$21,000 and \$0, respectively, to Leaf. As of June 30, 2017 and 2016, \$43,581 and \$64,380 remained outstanding, respectively.