

A NEW LEAF COTTAGES, INC.
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



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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 statement of financial position as of June 30, 2018, and the related statements of activities, functional expenses, and cash flows for the year 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 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 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, 2018, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The 2017 financial statements were audited by other auditors, whose report dated September 14, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2018, 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
September 26, 2018

A NEW LEAF COTTAGES, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash and Cash Equivalents	\$ 59,006	\$ 78,665
Cash - Funded Reserves	223,334	221,647
Accounts Receivable, Net	26	184
Prepaid Expenses and Other Assets	6,138	3,549
Property and Equipment, Net	1,643,534	1,697,268
Total Assets	\$ 1,932,038	\$ 2,001,313
LIABILITIES AND NET ASSETS (DEFICIT)		
LIABILITIES		
Accounts Payable	\$ 5,845	\$ 8,527
Accrued Expenses and Other Liabilities	10,083	4,996
Due to Related party	201	43,581
Notes Payable	1,929,025	1,929,025
Total Liabilities	1,945,154	1,986,129
UNRESTRICTED NET ASSETS (DEFICIT)	(13,116)	15,184
Total Liabilities and Net Assets (Deficit)	\$ 1,932,038	\$ 2,001,313

See accompanying Notes to Financial Statements.

**A NEW LEAF COTTAGES, INC.
STATEMENTS OF ACTIVITIES
YEAR ENDED JUNE 30, 2018 AND 2017**

	2018	2017
REVENUES, SUPPORT AND GAINS		
Rental Income	\$ 161,956	\$ 152,226
Contributions	1,440	2,791
Other	4,299	9,189
Total Revenues, Support and Gains	167,695	164,206
EXPENSES		
Program Services:		
Residential	149,826	192,083
Supporting Services:		
Management and General	46,169	2,029
Total Expenses	195,995	194,112
CHANGES IN NET ASSETS (DEFICIT)	(28,300)	(29,906)
Unrestricted Net Assets - Beginning of Year	15,184	45,090
UNRESTRICTED NET ASSETS (DEFICIT) - END OF YEAR	\$ (13,116)	\$ 15,184

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 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.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services	Supporting Services	Total
	Residential	Management and General	
Management Fees	\$ 33,181	\$ -	\$ 33,181
Client Assistance	13,067	-	13,067
Depreciation	53,734	-	53,734
Insurance	10,461	-	10,461
Licenses and permits	80	-	80
Miscellaneous	1,386	-	1,386
Professional Services	29,605	1,259	30,864
Repairs and Maintenance	11,644	-	11,644
Supplies	-	770	770
Utilities	38,925	-	38,925
Total Expenses Included in the Statements of Activities	<u>\$ 192,083</u>	<u>\$ 2,029</u>	<u>\$ 194,112</u>

See accompanying Notes to Financial Statements.

**A NEW LEAF COTTAGES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets (Deficit)	\$ (28,300)	\$ (29,906)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities		
Depreciation	53,734	53,734
Bad Debt Expense	-	975
(Increase) Decrease in Assets:		
Accounts Receivable	158	(1,159)
Prepaid Expenses and Other Assets	(2,589)	-
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,682)	5,247
Accrued Expenses and Other Liabilities	5,087	(216)
Due To Related Party	(43,380)	(20,799)
Net Cash Provided (Used) by Operating Activities	(17,972)	7,876
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits to Funded Reserves	(1,687)	(22,483)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(19,659)	(14,607)
Cash and Cash Equivalents - Beginning of Year	78,665	93,272
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 59,006	\$ 78,665

See accompanying Notes to Financial Statements.

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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.

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 \$218,222 and \$216,863 at June 30, 2018 and 2017, respectively. For the year ended June 30, 2018 and 2017, Cottages held a separate cash account to fund tenant security deposits with a balance of \$5,112 and \$4,784. 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, 2018 and 2017, the allowance was \$1,400 and \$975, 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, 2018 and 2017.

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

**A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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.

Subsequent Events

Cottages has evaluated subsequent events through September 26, 2018, 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, 2018 and 2017:

	<u>2018</u>	<u>2017</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	303,497	249,763
Property and Equipment, Net	<u>\$ 1,643,534</u>	<u>\$ 1,697,268</u>

A NEW LEAF COTTAGES, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, the outstanding loan balance was \$145,000.

NOTE 4 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, 2018 and 2017, Leaf contributed \$0- and \$201, respectively, to Cottages for operating costs. During the same years, Cottages made payments of \$43,380 and \$21,000, respectively, to Leaf. As of June 30, 2018 and 2017, \$201 and \$43,581 remained outstanding, respectively.



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