



Consolidated Financial Statements  
June 30, 2014

# A New Leaf, Inc. and Subsidiary

Independent Auditor's Report.....	1
Financial Statements	
Consolidated Statement of Financial Position .....	3
Consolidated Statement of Activities.....	4
Consolidated Statement of Functional Expenses .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements.....	7
Supplementary Information	
Consolidating Statement of Financial Position .....	20
Consolidating Statement of Activities .....	21



## **Independent Auditor's Report**

Board of Directors  
A New Leaf, Inc. and Subsidiary  
Mesa, Arizona

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of A New Leaf, Inc. and Subsidiary, which comprise the consolidated statement of financial position as of June 30, 2014 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the 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 auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 A New Leaf, Inc. and Subsidiary as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Correction of Errors**

As discussed in Note 15 to the consolidated financial statements, certain errors resulting in an understatement of permanently and temporarily restricted net assets and an overstatement of unrestricted restricted net assets as of June 30, 2013, were discovered by management of the Organization during the current year. Accordingly, unrestricted, temporarily, and permanently restricted net assets have been restated as of June 30, 2013, to correct the error. Our opinion is not modified with respect to these matters.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 20 and 21 is presented for the purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2015 on our consideration of A New Leaf, 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 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 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 Inc.'s internal control over financial reporting and compliance.

Handwritten signature of Eric Bailly LLP in cursive script.

Phoenix, Arizona  
May 27, 2015

A New Leaf, Inc. and Subsidiary  
Consolidated Statement of Financial Position  
June 30, 2014

---

Assets

Cash and cash equivalents	\$ 1,851,151
Cash - IDA restricted	488,083
Accounts receivable, net	1,565,489
Related party receivable	1,414,511
Promises to give, net	2,090,448
United Way receivable	694,522
Other receivables	8,579
Prepaid expenses and other assets	243,117
Note receivable, related party	800,000
Investments	198,464
Investment in affiliates	1,554,268
Property and equipment, net	<u>3,483,405</u>
Total assets	<u><u>\$ 14,392,037</u></u>

Liabilities and Net Assets

Accounts payable	\$ 927,279
Accrued expenses and other liabilities	1,186,923
Due to related party	499,303
Deferred compensation liability	195,308
Deferred revenue	237,420
Capital lease obligations	135,636
Guaranteed loan obligation	241,488
Notes payable, related party	<u>985,000</u>
Total liabilities	<u>4,408,357</u>

Net Assets

Unrestricted	4,866,320
Temporarily restricted	3,581,067
Permanently restricted	<u>1,536,293</u>
Total net assets	<u>9,983,680</u>
Total liabilities and net assets	<u><u>\$ 14,392,037</u></u>

A New Leaf, Inc. and Subsidiary  
Consolidated Statement of Activities  
Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue, Support, and Gains				
Contract revenue	\$ 9,173,827	\$ -	\$ -	\$ 9,173,827
RBHA revenue	10,965,416	-	-	10,965,416
Contributions	2,420,626	1,172,525	275,751	3,868,902
United Way contributions	29,419	694,522	-	723,941
Client fees	24,609	-	-	24,609
Bingo revenue, net	328,873	-	-	328,873
Other revenue	301,489	-	-	301,489
Net investment return	1,214	-	-	1,214
Net assets released from restrictions	2,830,102	(2,830,102)	-	-
Total revenue, support, and gains	<u>26,075,575</u>	<u>(963,055)</u>	<u>275,751</u>	<u>25,388,271</u>
Expenses and Losses				
Program services expense	19,059,134	-	-	19,059,134
Supporting services expense				
Management and general	3,273,515	-	-	3,273,515
Fundraising and development	618,913	-	-	618,913
Total supporting services expenses	<u>3,892,428</u>	<u>-</u>	<u>-</u>	<u>3,892,428</u>
Total expenses	<u>22,951,562</u>	<u>-</u>	<u>-</u>	<u>22,951,562</u>
Loss from subsidiary	36,063	-	-	36,063
Total expenses and losses	<u>22,987,625</u>	<u>-</u>	<u>-</u>	<u>22,987,625</u>
Change in Net Assets	<u>3,087,950</u>	<u>(963,055)</u>	<u>275,751</u>	<u>2,400,646</u>
Net Assets, Beginning of Year, as previously reported	3,498,800	1,964,256	506,042	5,969,098
Correction of an error	<u>(1,720,430)</u>	<u>2,579,866</u>	<u>754,500</u>	<u>1,613,936</u>
Net Assets, Beginning of Year, restated	<u>1,778,370</u>	<u>4,544,122</u>	<u>1,260,542</u>	<u>7,583,034</u>
Net Assets, End of Year	<u>\$ 4,866,320</u>	<u>\$ 3,581,067</u>	<u>\$ 1,536,293</u>	<u>\$ 9,983,680</u>

A New Leaf, Inc. and Subsidiary  
Consolidated Statement of Functional Expenses  
Year Ended June 30, 2014

	Program Services									
	Shelter Services	Youth Services	Behavioral Health	Community Action	Weatherization	Individual Development Accounts	Other Programs	Management and General	Fundraising and Development	Total
Salaries and wages	\$ 2,193,649	\$ 2,579,252	\$ 3,671,080	\$ 236,220	\$ 32,774	\$ 95,966	\$ -	\$ 1,638,249	\$ 271,593	\$ 10,718,783
Payroll taxes	208,006	261,900	341,587	20,075	3,505	6,846	-	124,098	25,570	991,587
Employee benefits	264,263	272,525	305,447	38,970	6,803	13,290	-	192,067	31,437	1,124,802
Other employee benefits	7,180	15,221	18,021	-	-	-	-	73,312	725	114,459
Recruitment	5,619	9,674	10,017	-	-	-	-	14,364	481	40,155
Bingo prizes	-	-	-	-	-	-	-	697,170	-	697,170
Professional services	127,221	437,318	1,253,846	25,242	3	19,786	894	267,552	54,215	2,186,077
Supplies and postage	118,845	232,022	96,877	58,081	37	611	-	174,665	9,734	690,872
Occupancy and depreciation	922,925	582,084	669,289	102,819	8,649	8,092	-	423,670	142,905	2,860,433
Equipment rental and maintenance	21,718	23,011	23,276	6,815	-	13	-	57,745	259	132,837
Travel	61,875	142,460	157,333	9,206	1,423	776	-	49,493	937	423,503
Client assistance	712,333	29,708	437,770	1,269,016	250,254	-	101,000	-	2,924	2,803,005
IDA expense	-	-	-	-	-	81,817	-	-	-	81,817
Telephone	86,389	91,963	137,192	-	-	-	-	77,431	3,598	396,573
Conferences, conventions and meetings	5,272	1,514	6,084	-	-	-	-	23,473	3,844	40,187
Printing and advertising	51,674	9,928	5,246	-	-	-	-	4,295	67,463	138,606
Membership dues	2,780	6,918	9,890	-	-	-	-	3,128	709	23,425
Subscriptions and publications	-	5	-	-	-	-	-	726	458	1,189
Liability insurance	45,940	39,016	95,171	11,136	1,237	2,365	-	63,463	1,564	259,892
Licenses, permits and taxes	3,348	10,444	5,061	-	-	-	-	556	-	19,409
Other	103	47	-	14,249	42	785	-	85,228	497	100,951
	<u>4,839,140</u>	<u>4,745,010</u>	<u>7,243,187</u>	<u>1,791,829</u>	<u>304,727</u>	<u>230,347</u>	<u>101,894</u>	<u>3,970,685</u>	<u>618,913</u>	<u>23,845,732</u>
Less expenses included with revenues on the statement of activities										
Bingo shop cost of goods sold	-	-	-	-	-	-	-	(697,170)	-	(697,170)
Total expenses included in the expense section on the statement of activities	<u>\$ 4,839,140</u>	<u>\$ 4,745,010</u>	<u>\$ 7,243,187</u>	<u>\$ 1,791,829</u>	<u>\$ 304,727</u>	<u>\$ 230,347</u>	<u>\$ 101,894</u>	<u>\$ 3,273,515</u>	<u>\$ 618,913</u>	<u>\$ 23,148,562</u>

See Notes to Consolidated Financial Statements

A New Leaf, Inc. and Subsidiary  
Consolidated Statements of Cash Flows  
Year Ended June 30, 2014

Cash Flows from Operating Activities	
Change in net assets	\$ 2,400,646
Adjustments to reconcile change in net assets to net cash from (used for) operating activities	
Depreciation and amortization	213,832
Realized and unrealized gain on investments	(540)
Net loss from investment in subsidiary	36,063
Change in allowance for doubtful accounts	(10,961)
Change in discount on promises to give	(11,585)
Donated investments	(2,616)
Contributions restricted to endowment	(275,751)
Changes in operating assets and liabilities	
Cash - IDA restricted	(278,230)
Accounts receivable	(303,044)
Related party receivable	(389,958)
Promises to give	(440,145)
United Way receivable	31,876
Other receivables	(8,579)
Prepaid expenses and other assets	(41,012)
Accounts payable	(350,626)
Accrued expenses and other liabilities	(282,614)
Due to related party	249,133
Deferred revenue	77,667
Net Cash from Operating Activities	<u>613,556</u>
Cash Flows from Investing Activities	
Purchases of property and equipment	(382,563)
Advances on notes receivable	(800,000)
Net Cash (used for) Investing Activities	<u>(1,182,563)</u>
Cash Flows from Financing Activities	
Collections of contributions restricted to endowment	270,904
Payments on capital lease obligations	(42,633)
Capital loan obligations	(63,087)
Proceeds from long-term debt	560,000
Payments on long-term debt	(75,000)
Net Cash from Financing Activities	<u>650,184</u>
Net Change in Cash and Cash Equivalents	81,177
Cash and Cash Equivalents, Beginning of Year	1,769,974
Cash and Cash Equivalents, End of Year	<u><u>\$ 1,851,151</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid during the year for interest	<u><u>\$ -</u></u>
Supplemental Disclosure of Non-cash Investing and Financing Activity	
Donated investments	\$ 2,616
Equipment financed through capital lease arrangement	160,790
	<u><u>\$ 163,406</u></u>



## **Note 1 - Principal Activity and Significant Accounting Policies**

### **Organization**

A New Leaf, Inc. (Leaf) is an Arizona nonprofit corporation providing health and welfare services within Maricopa County. Leaf's mission is Helping Families and Changing Lives by providing emergency services and shelter to the homeless and victims of domestic violence; by providing community behavioral health services and programs; and by providing youth residential treatment centers and services. The vision at Leaf is to provide hope, new beginnings, growth and change for individuals and families who aspire to turn over a new leaf. Leaf's major programs are discussed below:

- *Youth Services* – Leaf's youth services include contractual residential and outpatient treatment centers along with a detention alternative program.
- *Shelter Services* - This program provides emergency shelter, basic needs, case management, childcare and education classes for homeless individuals and families and for victims of domestic violence and their children. Ancillary services include a temporary overflow program utilized when domestic violence shelters are full, a court advocate program, family advocacy services and crisis hotlines.
- *Outpatient Services* – Leaf's community behavior health programs for children provide support for mental and behavioral health issues as supported by contractual agreements. Services include, but are not limited to, medical/psychiatric, case management, family support, therapy, social rehabilitation, facility-based after school and summer care and youth intervention/respite.
- *Community Programs* - Leaf provides an alternative to detention programs in both the east and west valley. This program helps keep children and adolescents out of the probation system. In addition services are provided to reunite children with families through contracts with the Arizona Department of Economic Security and Child Protective Services.
- *Community Action Programs* - This program provides programs for low-income individuals and families in Mesa to meet their immediate basic needs. Programs include the community assistance program, the weatherization program, and individual development accounts (IDAs.) Client services include rent, mortgage, utility, and weatherization assistance to Mesa residents facing economic emergencies that are impacting their housing, health and safety. Resource and referrals are an integral part of this program.

### **Principles of Consolidation**

A New Leaf, Inc. is the sole member of La Mesita Apartments, LLC, La Mesita Apartments Phase 2, LLC, and La Mesita Apartments Phase 3, LLC. La Mesita Apartments, LLC, is the general partner in the La Mesita Apartments, LP with a 0.01% share. La Mesita Apartments Phase 3, LLC, is the general partner in the La Mesita Apartments Phase 3, LP. To date there has been no activity in Phase 2 LLC, Phase 3, LLC, or the Phase 3, LP. The total investment held by La Mesita Apartments, LLC amounted to less than \$100 and has not been included in the attached audited consolidated financial statements due to immateriality.

In October 2006, the board of directors of Mesa Community Action Network, Inc. (MesaCAN) amended its articles of incorporation to evidence Leaf as the sole member of MesaCAN. MesaCAN retained its legal status as a separate 501(c)(3) organization.

The consolidated financial statements include the accounts of Leaf and MesaCAN because Leaf has both control and an economic interest in MesaCAN. All significant intercompany accounts and transactions have been eliminated in consolidation. Unless otherwise noted, these consolidated entities are hereinafter referred to as “the Organization.”

### **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. Certain cash is restricted to use for IDAs and is required to be held in a separate account.

### **Receivables and Credit Policies**

Accounts receivable consist primarily of noninterest-bearing amounts due for educational programs. 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, 2014, the allowance was \$134,464.

### **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 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. Management has determined all promises to be fully collectible, and, as such, there is no allowance as of June 30, 2014.

### **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/(loss) 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.

### **Investments in Affiliated Entities**

The equity method of accounting is used when the Organization has a 20% to 50% interest in other entities. Under the equity method, original investments are recorded at cost and adjusted for the Organization’s share of undistributed earnings or losses of these entities. Nonmarketable investments in which the Organization has less than a 20% interest and in which it does not have the ability to exercise significant influence over the investee are initially recorded at cost, and periodically reviewed for impairment.

## 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 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 statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed currently.

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, 2014.

## 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 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 statement 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 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. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received.

### **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 \$139,000 for the year ended June 30, 2014.

### **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. No significant contributions of such goods or services were received during the year.

### **Income Taxes**

Leaf and MesaCAN are organized as Arizona nonprofit corporations and have been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as organizations described in Section 501(c)(3) and have been determined not to be private foundations under Section 509(a)(1). Accordingly, contributions to them qualify for the charitable contribution deduction under Section 170(b)(1)(A). Each entity is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the entities are generally subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. Leaf has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. MesaCAN has determined it is subject to the unrelated business income tax and has filed a Form 990-T for the FYE 6/30/2014. However, because the amount of UBI is immaterial, tax expense is recorded as paid, rather than as incurred.

The IRS is examining Leaf's return for the fiscal year ended June 30, 2012. Management is cooperating with the examination and does not expect any adjustments to the return as filed that would have a material impact on the financial statements.

Each entity believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The entities 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 consolidated 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 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.

### Financial Instruments and Credit Risk

The Organization manages deposit concentration risk by placing cash, money market accounts, and certificates of deposit with financial institutions believed by management to be creditworthy. At times, amounts on deposit may exceed insured limits or include uninsured investments in money market mutual funds. To date, the Organization has not experienced losses in any of these accounts. Credit risk associated with accounts receivable and promises to give is considered to be limited due to high historical collection rates and because substantial portions of the outstanding amounts are due from Board members, governmental agencies, and foundations supportive of the Organization's mission.

### Subsequent Events

The Organization has evaluated subsequent events through May 27, 2015, the date the consolidated financial statements were available to be issued.

### Note 2 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2014:

Within one year	\$ 813,100
In one to five years	1,437,411
	<u>2,250,511</u>
Less discount to net present value [4%]	<u>(160,063)</u>
	<u><u>\$ 2,090,448</u></u>

At June 30, 2014, three donors had promises to give balances that equaled over 10% of the total balance.

### Note 3 - 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 Organization 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 Organization develops inputs using the best information available in the circumstances.

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 Organization's assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Organization's investment assets are classified within Level 2 because they are comprised of debt investments valued using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions. Corporate stock is classified within Level 1 because the stock has a readily determinable fair value based on daily redemption values.

The following table presents assets measured at fair value on a recurring basis at June 30, 2014:

	Total	Fair Value Measurements at Report Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Pooled separate funds				
Equity fund	\$ 76,643	\$ -	76,643	\$ -
Target date retirement fund	90,439	-	90,439	-
Interest bearing fund	11,237	-	11,237	-
Bond fund	16,989	-	16,989	-
Corporate stock	3,156	3,156	-	-
	<u>\$ 198,464</u>	<u>\$ 3,156</u>	<u>\$ 195,308</u>	<u>\$ -</u>

#### Note 4 - Investments in Affiliates

Investments in various business ventures are being recorded on the equity method. The Organization's share of net losses from equity method investments, were \$36,063 in 2014. The Organization has not received distributions from these investments.

Summary information on equity method investments is as follows for the year ended June 30, 2014:

	Prospect Park, LP
Investment value at June 30, 2013	\$ 1,590,331
Loss	<u>(36,063)</u>
Investment value at June 30, 2014	<u><u>\$ 1,554,268</u></u>

### **Note 5 - Property and Equipment**

Property and equipment consists of the following at December 31, 2014:

Land	\$ 1,127,136
Buildings	331,415
Building improvements	2,096,144
Computer software	122,539
Leased equipment	160,790
Construction in progress	256,663
Vehicles	47,903
Furniture and fixtures	<u>53,787</u>
	4,196,377
Less accumulated depreciation and amortization	<u>(712,972)</u>
	<u><u>\$ 3,483,405</u></u>

Depreciation and amortization expense totaled \$213,832, for the year ended June 30, 2014.

### **Note 6 - Line of Credit**

The Organization has a \$1,000,000, unsecured, revolving line of credit through May 2015, bearing interest at an adjustable rate equal to the bank's Prime Rate plus 0.5%. As of June 30, 2014, there was no unpaid balance on this line of credit.

The Organization has a \$250,000, unsecured, revolving line of credit restricted to finance purchases of equipment through June 2015, bearing interest at a rate of 5.5%. As of June 30, 2014, there have been no draws on this line of credit.

The Organization has a \$2,250,000, unsecured, revolving line of credit restricted to finance construction activities through August 2015 bearing interest at an adjustable rate equal to the bank's Prime Rate plus 0.5%. After August 2015, this line of credit will convert to a loan subject to a variable interest rate equal to the Treasury Constant Maturity Index (1.62% as of June 30, 2014) plus 2.5% and will be payable in monthly installments through August 2020. As of June 30, 2014, there have been no draws on this line of credit.

## **Note 7 - Guaranteed Loan Obligation**

Leaf has guaranteed certain debt totaling \$4,016,624, as of June 30, 2014, for La Mesita Apartments, LP, (La Mesita) a related party as described above. This debt matures on October 12, 2014 and does not bear interest. Leaf does not anticipate default by La Mesita. The debt has not been recorded as requirements for recording under GAAP have not been met.

Leaf has also guaranteed certain debt obligations totaling \$2,802,854 as of June 30, 2014, for the Pre-Hab Foundation (the Foundation), an Arizona non-profit corporation related through common management. The first obligation bears an adjustable rate interest equal to the sum of the five year Treasury Constant Maturity Index (1.62% as of June 30, 2014) plus 2.5% and is payable in monthly installments by the Foundation through October 2020. The second obligation bears an adjustable rate interest equal to the LIBOR (0.094% as of June 30, 2014) plus 2.05% and is payable in monthly installments by the Foundation through April 2022. Leaf does not anticipate default by the Foundation. Leaf's liability for these guarantees is presented as guaranteed loan obligations in the amount of \$241,488 in the accompanying consolidated statement of financial position. Reduction of the liability due to repayment of the debts by the Foundation is recognized as contribution revenue in the accompanying consolidated statement of activities.

Outstanding balances of guaranteed loans presented in the consolidated statement of financial position are as follows:

Loan guarantee on behalf of PRE-HAB Foundation. Matures October 2020.	\$ 9,675
Loan guarantee on behalf of PRE-HAB Foundation. Matures April 2022.	<u>231,813</u>
	<u><u>\$ 241,488</u></u>

The following is a schedule of expected repayment and corresponding reduction of the guaranteed loan obligations:

<u>Years Ending June 30,</u>	
2015	\$ 56,057
2016	48,237
2017	40,365
2018	32,437
2019	25,757
Thereafter	<u>38,635</u>
	<u><u>\$ 241,488</u></u>



### Note 8 - Notes Payable

Notes payable consist of a series of loans payable to the Foundation, an entity related through common management. The notes bear no interest, have no maturity dates, and are payable as funding becomes available. As of June 30, 2014, these notes total \$985,000.

### Note 9 - Leasing Activity

The Organization leases office and program space under various operating leases and equipment under various capital leases expiring at various dates through 2017.

Future minimum lease payments are as follows:

<u>Years Ending December 31,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2015	\$ 43,350	\$ 105,320
2016	43,350	30,000
2017	43,350	7,500
2018	14,450	-
	<hr/>	<hr/>
Total minimum lease payments	144,500	\$ 142,820
Less amount representing interest	(8,864)	<hr/>
	<hr/>	<hr/>
Capital lease obligation	\$ 135,636	
	<hr/>	

Total lease expense for the years ended June 30, 2014 totaled \$754,737.

Leased property under capital leases at June 30, 2014 includes:

Leased equipment	\$ 1,554,268
Less accumulated depreciation	<hr/> (32,513)
	<hr/> \$ 1,521,755 <hr/>

### Note 10 - Endowments

The Endowment consists of a fund established by donors to provide annual funding for specific activities and general operations of La Mesita Apartments. Net assets associated with the endowment fund are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Arizona Uniform Prudent Management of Institutional Funds Act (UPMIFA) as 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, 2014 there were no such donor stipulations. As a result of this interpretation, we classify 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 Board of Directors in a manner consistent with the standard of prudence prescribed by UPMIFA. We consider 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 organization 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 organization
- The investment policies of the organization

### Investment and Spending Policies

The Organization will not utilize earnings on any donor restricted endowments until the basis of such endowment reaches \$5,000,000. After the minimum basis is reached, the Board of Directors may release up to 3% of earnings from the previous calendar year for uses designated by them within guidelines of any restrictions.

Changes in Endowment net assets for the year ending June 30, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment net assets, beginning of year	\$ -	\$ -	\$ 1,260,542	\$ 1,260,542
Additions	-	-	275,751	275,751
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,536,293</u>	<u>\$ 1,536,293</u>

## **Note 11 - Restricted Net Assets**

### **Temporarily Restricted**

Temporarily restricted net assets at June 30, 2014, consist of:

Time restriction	\$ 696,022
Purpose restriction	
Rapid Rehousing	80,000
IDA program	135,971
East Valley Men's Shelter	42,975
Subtotal purpose restriction	<u>258,946</u>
Time and purpose restrictions	
IDA program	\$ 488,291
La Mesita Capital Campaign	167,573
La Mesita Shelter	153,871
Rapid Rehousing	160,000
Arizona Department of Housing	497,000
City of Glendale - CDBG	200,000
City of Mesa - CDBG	891,364
Town of Gilbert	18,000
City of Scottsdale	50,000
Subtotal time and purpose restriction	<u>2,626,099</u>
Total temporarily restricted net assets	<u>\$ 3,581,067</u>

## **Note 12 - Employee Benefits**

### **Defined Contribution Plan**

The Organization sponsors a defined contribution plan (the Plan) qualified under Section 401(k) of the Internal Revenue Code covering substantially all full-time employees. The plan provides that employees who have attained the age of 21 and completed one year of service can voluntarily contribute a percentage of their salary to the Plan, up to the maximum contribution allowed by the IRS. As of January 1, 2014, the Organization implemented a Safe Harbor Provision into their plan. Employees qualifying for the plan and working a minimum of one thousand hours is eligible for the Safe Harbor Provision. Employer contributions to the plan are discretionary and require board approval. Prior to January 1, 2014, the Organization voluntarily matched these contributions up to 50% of the first 6% of deferrals. As of January 1, 2014, the Organization matched employee contributions up to 50% of the first 4% of deferrals, and vest at a graduated rate over 4 years of employment. During the year ended June 30, 2014, the Organization matched employee voluntary contributions up to 50% of the first 4% of deferrals, resulting in contributions to the plan of \$245,722.

### **Deferred Compensation Agreement**

The Organization sponsors a tax-deferred annuity plan qualified under Section 457(e)(1)(B) of the Internal Revenue Code covering certain highly compensated employees. Contributions are designated by the Board of Directors or Chief Executive Officer of the Organization and withheld from the employees' wages.

### **Note 13 - Related Party Transactions**

A New Leaf Cottages, Inc. (the Cottages), is a 501(c)(3) managed by the Organization. Additionally, as of June 2010, the Organization assumed some program functions on behalf of the Cottages. In the year ended June 30, 2013, the Organization advanced the Cottages \$50,000, for operating costs. As of June 30, 2014, the entire amount remains outstanding.

The Organization owns a limited partnership investment in Prospect Park, LLC (the Park), an affordable housing establishment. The Organization pays a portion the Park's rent expenses. During the year ended June 30, 2014, the Organization also provided the Park with \$100,000, for repayment of debt to third parties. Additionally the Organization has funded certain other operating expenses of the Park. As of June 30, 2014, \$198,639 is owed to the Organization and is presented as related party receivables in the accompanying consolidated statement of financial position.

In addition to debt guaranteed by the Organization for the Foundation (see Note 7), the Foundation reimburses the Organization for management and support service costs. These reimbursements totaled \$268,824 for the year ended June 30, 2014. As of June 30, 2014, \$260,599, remained outstanding for these costs and is presented as related party receivables in the accompanying consolidated statement of financial position. The Foundation has also received \$560,900, from the Organization in the form of rent, and provided \$106,500, in donations to the Organization for the year ended June 30, 2014. The Organization owes \$491,303 in rent payments to the Foundation as of June 30, 2014.

Resulting from its ownership interest in La Mesita Apartments, LLC; La Mesita Apartments Phase 2, LLC; La Mesita Apartments Phase 3, LLC; and La Mesita Apartments Phase 3 LP, the Organization has funded certain development, construction, and operating costs associated these inter-related entities. As of June 30, 2014, La Mesita Apartments Phase 3 owes the Organization \$579,150 for developer fees and \$800,000 on a non-interest bearing loan receivable in annual installments through December 2043, included in related party receivables and note receivable, respectively, on the accompanying consolidated statement of financial position. La Mesita Apartments, LLC, and La Mesita Apartments Phase 3, LLC, also owe the Organization \$303,895 and \$36,228, respectively, for advances of construction, development, and operating expenses as of June 30, 2014. These amounts are included as related party receivables on the accompanying consolidated statement of financial position.

Certain members of the Board of Directors of the Organization have pledged donations in the amount of \$1,120,300 during the year ended June 30, 2014. As of June 30, 2014, \$812,108 remains uncollected. The donations are expected to be collected over a five year period.

#### **Note 14 - Commitments**

The Organization has entered into various contracts related to construction of a shelter in Mesa, Arizona. As of June 30, 2014, commitments of \$2,067,697 remained on these contracts.

#### **Note 15 - Correction of an Error**

Accounts receivable, promises to give, investment in subsidiaries, property and equipment, accounts payable, accrued expenses and other liabilities, accrued expenses, guaranteed loan obligations, notes payable, and unrestricted, temporarily restricted, and permanently restricted net assets were misstated as of June 30, 2013, as a result of errors and omissions in recording certain transactions. The net effect of these misstatements has been corrected in the accompanying consolidated financial statements. A summary of the effects on each class of net assets is presented below:

	2013 As Previously Reported	Restatement Adjustment	2013 As Restated
Net Assets			
Unrestricted net asset	\$ 3,498,800	\$ (1,720,430)	\$ 1,778,370
Temporarily restricted net assets	1,964,256	2,579,866	4,544,122
Permanently restricted net assets	506,042	754,500	1,260,542
Total net assets	<u>\$ 5,969,098</u>	<u>\$ 1,613,936</u>	<u>\$ 7,583,034</u>



Supplementary Information  
June 30, 2014

## A New Leaf, Inc. and Subsidiary

A New Leaf, Inc. and Subsidiary  
Consolidating Statement of Financial Position  
June 30, 2014

	A New Leaf Inc.	Mesa CAN	Eliminations	Consolidated
<b>Assets</b>				
Cash and cash equivalents	\$ 1,722,797	\$ 128,354	\$ -	\$ 1,851,151
Cash - IDA restricted	-	488,083	-	488,083
Accounts receivable, net	1,295,934	269,555	-	1,565,489
Related party receivable	1,627,378	-	(212,867)	1,414,511
Promises to give, net	1,702,157	388,291	-	2,090,448
United Way receivable	694,522	-	-	694,522
Other receivables	8,579	-	-	8,579
Prepaid expenses and other assets	243,117	-	-	243,117
Note receivable	800,000	-	-	800,000
Investments	198,464	-	-	198,464
Investment in affiliates	1,554,268	-	-	1,554,268
Property and equipment, net	3,483,405	-	-	3,483,405
<b>Total assets</b>	<b>\$ 13,330,621</b>	<b>\$ 1,274,283</b>	<b>\$ (212,867)</b>	<b>\$ 14,392,037</b>
<b>Liabilities and Net Assets</b>				
Accounts payable	\$ 778,559	\$ 148,720	\$ -	\$ 927,279
Accrued expenses and other liabilities	1,160,846	26,077	-	1,186,923
Due to related party	505,303	206,867	(212,867)	499,303
Deferred compensation liability	195,308	-	-	195,308
Deferred revenue	144,894	92,526	-	237,420
Capital lease obligations	135,636	-	-	135,636
Guaranteed loan obligations	241,488	-	-	241,488
Notes payable	985,000	-	-	985,000
<b>Total liabilities</b>	<b>4,147,034</b>	<b>474,190</b>	<b>(212,867)</b>	<b>4,408,357</b>
<b>Net Assets</b>				
Unrestricted	4,690,489	175,831	-	4,866,320
Temporarily restricted	2,956,805	624,262	-	3,581,067
Permanently restricted	1,536,293	-	-	1,536,293
<b>Total net assets</b>	<b>9,183,587</b>	<b>800,093</b>	<b>-</b>	<b>9,983,680</b>
<b>Total liabilities and net assets</b>	<b>\$ 13,330,621</b>	<b>\$ 1,274,283</b>	<b>\$ (212,867)</b>	<b>\$ 14,392,037</b>

A New Leaf, Inc. and Subsidiary  
Consolidating Statement of Activities  
Year Ended June 30, 2014

	A New Leaf, Inc.				Mesa Community Action Network, Inc.					
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Eliminations	Consolidated
Revenue, Support, and Gains										
Contract revenue	\$ 6,935,558	\$ -	\$ -	\$ 6,935,558	\$ 2,238,269	\$ -	\$ -	\$ 2,238,269	\$ -	\$ 9,173,827
RBHA revenue	10,965,416	-	-	10,965,416	-	-	-	-	-	10,965,416
Contributions	2,510,755	1,070,278	275,751	3,856,784	10,871	102,247	-	113,118	(101,000)	3,868,902
United Way contributions	29,419	694,522	-	723,941	-	-	-	-	-	723,941
Client fees	24,609	-	-	24,609	-	-	-	-	-	24,609
Bingo revenue, net of cost of goods sold \$697,170	-	-	-	-	328,873	-	-	328,873	-	328,873
Other revenue	348,659	-	-	348,659	48,830	-	-	48,830	(96,000)	301,489
Net investment return	933	-	-	933	281	-	-	281	-	1,214
Net assets released from restrictions	2,761,594	(2,761,594)	-	-	68,508	(68,508)	-	-	-	-
Total revenue, support, and gains	23,576,943	(996,794)	275,751	22,855,900	2,695,632	33,739	-	2,729,371	(197,000)	25,388,271
Expenses and Losses										
Program services expense	16,827,337	-	-	16,827,337	2,428,797	-	-	2,428,797	(197,000)	19,059,134
Management and general	2,930,341	-	-	2,930,341	343,174	-	-	343,174	-	3,273,515
Fundraising and development	604,004	-	-	604,004	14,909	-	-	14,909	-	618,913
Total expenses	20,361,682	-	-	20,361,682	2,786,880	-	-	2,786,880	(197,000)	22,951,562
Loss from subsidiary	36,063	-	-	36,063	-	-	-	-	-	36,063
Total expenses and losses	20,397,745	-	-	20,397,745	2,786,880	-	-	2,786,880	(197,000)	22,987,625
Change in Net Assets	3,179,198	(996,794)	275,751	2,458,155	(91,248)	33,739	-	(57,509)	-	2,400,646
Net Assets, Beginning of Year, as previously reported	3,417,233	1,828,887	506,042	5,752,162	81,567	135,369	-	216,936	-	5,969,098
Correction of an error	(1,905,942)	2,124,712	754,500	973,270	185,512	455,154	-	640,666	-	1,613,936
Net Assets, Beginning of Year, restated	1,511,291	3,953,599	1,260,542	6,725,432	267,079	590,523	-	857,602	-	7,583,034
Net Assets, End of Year	\$ 4,690,489	\$ 2,956,805	\$ 1,536,293	\$ 9,183,587	\$ 175,831	\$ 624,262	\$ -	\$ 800,093	\$ -	\$ 9,983,680