

*Gateway Homes, Inc.
and Gateway Farms*

*Combined Financial Statements and
Independent Auditors' Report*

September 30, 2014 and 2013

Gateway Homes, Inc. and Gateway Farms

Table of Contents

	Page
<i>Board of Directors</i>	1
<i>Independent Auditors' Report</i>	2-3
<i>Combined Financial Statements</i>	
<i>Combined Statements of Financial Position</i>	4
<i>Combined Statements of Activities</i>	5
<i>Combined Statements of Cash Flows</i>	6
<i>Notes to Combined Financial Statements</i>	7-15
<i>Supplementary Information</i>	
<i>Combined Schedules of Functional Expenses</i>	16

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Independent Auditors' Report

Board of Directors
Gateway Homes, Inc. and Gateway Farms

We have audited the accompanying financial statements of Gateway Homes, Inc. and Gateway Farms (nonprofit organizations), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related combined statements of activities and cash flows for the years then ended, and the related notes to the combined statements. The financial statements of Gateway Homes, Inc. and Gateway Farms as of September 30, 2013, were audited by another auditor. That auditor expressed an unqualified opinion on those financial statements in their report dated May 23, 2014.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 of 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 auditors consider 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 combined financial statements referred to above present fairly, in all material respects, the financial position of Gateway Homes, Inc. and Gateway Farms as of September 30, 2014, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements as a whole. The combined schedules of functional expenses on page 16 are presented for purposes of additional analysis and are not a required part of the combined 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 combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.



Andrews, Barwick, & Lee, P.C.
Certified Public Accountants
Colonial Heights, Virginia
May 8, 2015

*Gateway Homes, Inc.
and Gateway Farms*

Combined Statements of Financial Position

September 30, 2014 and 2013

Gateway Homes, Inc. and Gateway Farms

Combined Statements of Financial Position

September 30, 2014 and 2013

	2014					2013	
	Unrestricted	Unrestricted - Board Designated	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Assets							
Current Assets							
Cash and Cash Equivalents	\$ 331,052	\$ -	\$ 331,052	\$ -	\$ -	\$ 331,052	\$ 469,723
Cash - HUD	142,051	-	142,051	-	-	142,051	113,158
Accounts Receivable	324,634	-	324,634	-	-	324,634	269,402
Grants Receivable	-	-	-	40,000	-	40,000	-
Promises to Give - Current Portion	12,213	-	12,213	8,000	-	20,213	38,696
Prepaid Expenses	8,679	-	8,679	-	-	8,679	100
Foreign Taxes Withheld	1,011	-	1,011	-	-	1,011	-
Investments - Current	-	70,000	70,000	-	-	70,000	70,000
Total Current Assets	\$ 819,640	\$ 70,000	\$ 889,640	\$ 48,000	\$ -	\$ 937,640	\$ 961,079
Property and Equipment							
Land	\$ 205,929	\$ -	\$ 205,929	\$ 69,000	\$ -	\$ 274,929	\$ 274,929
Buildings and Improvements	3,034,646	-	3,034,646	229,184	-	3,263,830	3,189,674
Construction in Progress	13,615	-	13,615	-	-	13,615	-
Furniture and Equipment	270,795	-	270,795	-	-	270,795	251,632
Vehicles	272,404	-	272,404	-	-	272,404	271,529
Less - Accumulated Depreciation	(1,491,130)	-	(1,491,130)	(10,822)	-	(1,501,952)	(1,366,336)
Total Property and Equipment - net	\$ 2,306,259	\$ -	\$ 2,306,259	\$ 287,362	\$ -	\$ 2,593,621	\$ 2,621,428
Other Assets							
Investments - Noncurrent	-	\$ 1,193,719	\$ 1,193,719	\$ 541,694	\$ 1,243,657	\$ 2,979,070	\$ 2,696,534
Total Other Assets	\$ -	\$ 1,193,719	\$ 1,193,719	\$ 541,694	\$ 1,243,657	\$ 2,979,070	\$ 2,696,534
Total Assets	\$ 3,125,899	\$ 1,263,719	\$ 4,389,618	\$ 877,056	\$ 1,243,657	\$ 6,510,331	\$ 6,279,041
Liabilities and Net Assets							
Current Liabilities							
Accounts Payable	\$ 62,090	\$ -	\$ 62,090	\$ -	\$ -	\$ 62,090	\$ 20,330
Accrued Interest	2,277	-	2,277	-	-	2,277	2,347
Accrued Salaries	16,652	-	16,652	-	-	16,652	16,442
Accrued Retirement	4,950	-	4,950	-	-	4,950	5,755
Due to Residents	16,751	-	16,751	-	-	16,751	5,227
Employee Withholdings	3,842	-	3,842	-	-	3,842	21,770
Charitable Gift Annuity Obligation - Current	-	70,000	70,000	-	-	70,000	70,000
Mortgage Payable - Current	10,287	-	10,287	-	-	10,287	9,417
Accrued Vacation	40,170	-	40,170	-	-	40,170	36,623
Total Current Liabilities	\$ 157,019	\$ 70,000	\$ 227,019	\$ -	\$ -	\$ 227,019	\$ 187,911
Noncurrent Liabilities							
Charitable Gift Annuity Obligation - Non-Current	\$ -	\$ 160,093	\$ 160,093	\$ -	\$ -	\$ 160,093	\$ 178,064
Mortgage Payable - Non-Current	297,640	-	297,640	-	-	297,640	307,926
Total Noncurrent Liabilities	\$ 297,640	\$ 160,093	\$ 457,733	\$ -	\$ -	\$ 457,733	\$ 485,990
Net Assets							
Net Assets	\$ 2,653,460	\$ 1,033,626	\$ 3,687,086	\$ 877,056	\$ 1,243,657	\$ 5,807,799	\$ 5,605,140
Prior Period Adjustment	17,780	-	17,780	-	-	17,780	-
Total Net Assets	\$ 2,671,240	\$ 1,033,626	\$ 3,704,866	\$ 877,056	\$ 1,243,657	\$ 5,825,579	\$ 5,605,140
Total Liabilities and Net Assets	\$ 3,125,899	\$ 1,263,719	\$ 4,389,618	\$ 877,056	\$ 1,243,657	\$ 6,510,331	\$ 6,279,041

See accompanying notes and independent auditors' report.

Gateway Homes, Inc. and Gateway Farms

Combined Statements of Activities

Years Ended September 30, 2014 and 2013

	2014						2013
	Unrestricted - Board		Total	Temporarily	Permanently	Total	Total
	Unrestricted	Designated	Unrestricted	Restricted	Restricted		
Revenue, Gains, and Other Support							
Resident Fees	\$ 2,144,965	\$ -	\$ 2,144,965	\$ -	\$ -	\$ 2,144,965	\$ 2,261,694
Contributions - Cash	218,494	-	218,494	248,596	-	467,090	370,502
Contributions - Non-Cash	875	-	875	-	-	875	298,184
Federal Housing Assistance	146,321	-	146,321	-	-	146,321	164,889
Miscellaneous	9,507	-	9,507	-	-	9,507	5,794
Investment Income - Net	1,448	140,432	141,880	212,104	-	353,984	379,055
Loss on Disposal of Property and Equipment	-	-	-	-	-	-	(9,476)
	<u>\$ 2,521,610</u>	<u>\$ 140,432</u>	<u>\$ 2,662,042</u>	<u>\$ 460,700</u>	<u>\$ -</u>	<u>\$ 3,122,742</u>	<u>\$ 3,470,642</u>
Change in Value of Charitable Gift Annuity Obligation	\$ -	\$ (52,029)	\$ (52,029)	\$ -	\$ -	\$ (52,029)	\$ (37,800)
Transfers	3,181	(3,181)	-	-	-	-	-
Net Assets Released from Restriction	243,750	-	243,750	(243,750)	-	-	-
	<u>\$ 2,768,541</u>	<u>\$ 85,222</u>	<u>\$ 2,853,763</u>	<u>\$ 216,950</u>	<u>\$ -</u>	<u>\$ 3,070,713</u>	<u>\$ 3,432,842</u>
Expenditures							
Program Services	\$ 2,523,358	\$ -	\$ 2,523,358	\$ -	\$ -	\$ 2,523,358	\$ 2,335,497
Management and General	256,740	-	256,740	-	-	256,740	208,496
Fundraising	87,956	-	87,956	-	-	87,956	87,657
	<u>\$ 2,868,054</u>	<u>\$ -</u>	<u>\$ 2,868,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,868,054</u>	<u>\$ 2,631,650</u>
	<u>\$ (99,513)</u>	<u>\$ 85,222</u>	<u>\$ (14,291)</u>	<u>\$ 216,950</u>	<u>\$ -</u>	<u>\$ 202,659</u>	<u>\$ 801,192</u>
Change in Net Assets							
Net Assets, Beginning of Year	2,752,973	948,404	3,701,377	660,106	1,243,657	5,605,140	4,803,948
Prior Period Adjustments	17,780	-	17,780	-	-	17,780	-
	<u>\$ 2,671,240</u>	<u>\$ 1,033,626</u>	<u>\$ 3,704,866</u>	<u>\$ 877,056</u>	<u>\$ 1,243,657</u>	<u>\$ 5,825,579</u>	<u>\$ 5,605,140</u>
Net Assets, End of Year							

See accompanying notes and independent auditors' report.

Gateway Homes, Inc. and Gateway Farms

Combined Statements of Cash Flows

Years Ended September 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Change in Net Assets	\$ 220,439	\$ 801,192
Adjustments to Reconcile to Net Cash from Operating Activities:		
Depreciation	135,616	129,193
Donated Assets	(875)	-
Loss on Disposal of Property and Equipment	-	9,476
Realized Gain on Investments	(84,071)	(146,721)
Unrealized Gain on Investments	(206,280)	(174,151)
Change in:		
Accounts Receivable	(55,232)	(132,820)
Grants Receivable	(40,000)	-
Promises to Give	18,483	30,916
Prepaid Expenses	(8,579)	-
Foreign Tax Withheld	(1,011)	-
Accounts Payable and Accrued Expenses	38,238	25,829
Charitable Gift Annuity Obligation	(17,971)	37,800
Net Cash from Operating Activities	\$ (1,243)	\$ 580,714
Cash Flows from Investing Activities		
Net (Deposits to) Withdrawals from Reserves for Replacements, Minimum Capital, and Interest Regained in HUD Accounts	\$ (28,893)	\$ 58,303
Purchase of Property and Equipment	(93,319)	(498,050)
Construction in Progress	(13,615)	-
Proceeds from Sale of Investments	735,812	830,475
Purchase of Investments	(727,997)	(888,123)
Net Withdrawal from Investments for Annuity Payments	70,000	-
Net Cash From Investing Activities	\$ (58,012)	\$ (497,395)
Cash Flows from Financing Activities		
Principal Payments on Mortgage Payable	\$ (9,416)	\$ (8,620)
Charitable Gift Annuity Obligation Distributions	(70,000)	(70,000)
Net Cash From Financing Activities	\$ (79,416)	\$ (78,620)
Net Change in Cash and Cash Equivalents	\$ (138,671)	\$ 4,699
Cash and Cash Equivalents, Beginning of Year	469,723	465,024
Cash and Cash Equivalents, End of Year	\$ 331,052	\$ 469,723
Supplemental Disclosure of Cash Flow Information		
Cash Paid for Interest	\$ 27,787	\$ 28,585

See accompanying notes and independent auditors' report.

Gateway Homes, Inc. and Gateway Farms

Notes to Combined Financial Statements

September 30, 2014

1. Nature of Activities and Summary of Significant Accounting Policies

A. Nature of Activities

Gateway Homes, Inc., incorporated in Virginia in 1983, is a transitional residential treatment program for individuals with serious mental illness whose primary goal is to live as independently as possible. *Gateway Farms* was established to serve as a rural residential facility. The two corporations share common staff and are collectively referred to herein as **Gateway**. All intercompany transactions and balances are eliminated in these combined financial statements. Sources of revenue consist of residents' fees paid by various organizations and/or recipient funds and contributions by various donors.

B. Basis of Accounting

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

C. Revenue Recognition

Revenue received is recorded as unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. Revenue received with donor-imposed restrictions that are met in the same year in which the revenue is received is classified as unrestricted revenue.

All donor-restricted revenue is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 revenue released from restrictions.

D. Cash and Cash Equivalents

Cash and cash equivalents include all monies in checking, savings, and money market accounts as well as highly liquid investments and certificates of deposit with maturity dates of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturity dates of those financial instruments.

For cash flows reporting purposes Gateway's definition of cash and cash equivalents includes all purchases with original maturities of three months or less at the date of purchase.

E. Accounts Receivable

Accounts receivable include all monies due Gateway from U.S. government and Virginia community service boards for services provided to residents. Accounts receivable are reported at estimated net realizable amounts from third-party payors.

F. Promises to Give

Contributions are recognized when the donor makes a promise to give to Gateway that is, in substance, unconditional. All donor-restricted contributions are reported as increases in temporarily or

permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Unconditional promises to give, including pledges and contributions receivable, are recognized as revenues or gains in the period received and as assets or decreases in liabilities or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. At this time no allowance is considered necessary by Gateway, as no significant write-offs have occurred.

G. Investments

Investments in marketable equity securities and mutual funds with readily determined fair values are carried at fair market value. Unrealized gains and losses are included in the change in net assets in the accompanying statements of activities.

H. Property and Depreciation

Property and equipment are recorded at cost. Gateway follows the practice of capitalizing all acquisition of property and equipment in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	10 – 40 years
Furniture and equipment	3 – 10 years
Vehicles	5 years

I. Income Taxes

Gateway Homes, Inc. and Gateway Farms are exempt from income taxes under Internal Revenue Code Section 501(c)(3) and the tax statues of the Commonwealth of Virginia; accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. A Return of Organization Exempt from Income Tax (Form 990) is required to be filed annually with the Internal Revenue Service. The tax years that are open and subject to examination by the Internal Revenue Service are 2014, 2013, 2012, and 2011.

J. Income Tax Uncertainties

Gateway follows the Financial Accounting Standards Board (“FASB”) guidance related to accounting for uncertainty in income taxes, which prescribes a minimum recognition threshold that a tax position is required to meet before being recognized in Gateway’s financial statements.

In accordance with the guidance, Gateway discloses the expected future tax consequences of uncertain tax positions presuming the taxing authorities’ full knowledge of the facts and Gateway’s position and records unrecognized tax benefits or liabilities for known, or anticipated tax issues based on Gateway’s analysis of whether additional taxes would be due to the authority given their full knowledge of the tax position. Gateway has completed its assessment and determined that there were no tax positions which would require recognition under guidance.

K. Donated Services and Other

Gateway recognizes donated services, supplies, assets, and other items in accordance with FASB Accounting Standards Codification 958-605-50-1, formerly, Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*. All in-kind contributions are recorded when received at fair value as income and expenses or capitalized as property or equipment. Gateway does not imply time restrictions for gifts of long-lived assets. As a result, in the absence of donor-imposed restrictions, gifts of long-lived assets are reported as unrestricted revenue.

The value of contributed materials and the value of contributed services that either (a) created or enhanced a nonfinancial asset or (b) required specialized skills, was provided by individuals possessing those skills, and would have been purchased if not contributed, are recorded at their fair values in the period received.

Gateway pays for most services requiring specific expertise. Gateway received contributed services that have not been recognized in the combined statement of activities because the criteria for recognition under the accounting standards have not been satisfied. These volunteer services are provided primarily by area and local residents.

L. Concentration of Credit Risk

Financial instruments which potentially subject Gateway to concentrations of credit risk consist principally of investments and cash and cash equivalents. Gateway places its investments and its cash and cash equivalents balances in quality financial institutions and diversified its portfolio among entities, thereby limiting the amount of credit exposure to any one entity. At September 30, 2014 and 2013, Gateway had cash and cash equivalents which exceeded the amount that are insured by the Federal Deposit Insurance Corporation totaling \$55,024 and \$164,977 respectively.

M. Resident Fees

Resident fees are reported at estimated net realizable amounts from resident and third-party payors for services rendered. Revenue from the Medicaid program accounted for a significant portion of Gateway's resident fees for 2014 and 2013. Laws and regulations governing the Medicaid program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. In addition, approximately 26% for 2014 and 21% for 2013 of Gateway's resident fees are funded by a single Virginia county.

N. Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

O. Net Assets

Net assets of Gateway and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations or any restrictions.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. Included in this category may be gifts held by Gateway pending the use in accordance with donor stipulations, and unexpended gifts for capital projects.

Permanently restricted net assets – Net assets, subject to donor-imposed stipulations, that are to be held in perpetuity. At September 30, 2014, and September 30, 2013, Gateway had permanently restricted net assets of \$1,243,657.

P. Estimates

The preparation of combined 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 and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

2. Cash and Cash Equivalents

The ending balances of cash and cash equivalents as of September 30, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>
Operating Account – SunTrust	\$ 12,271	\$ 136,216
Payroll Account – SunTrust	5,382	27,832
Campus Account – SunTrust	2,314	2,655
Farm Account – SunTrust	12,353	4,578
Reserve Account – SunTrust	133,488	133,372
Reserve Account – Wells Fargo	165,244	165,070
Total Cash and Cash Equivalents	\$ 331,052	\$ 469,723

3. Cash – U.S. Department of Housing and Urban Development

The ending balances of Cash – HUD as of September 30, 2014 and 2013 consist of:

	<u>2014</u>	<u>2013</u>
Reserves – HUD – SunTrust	\$ 139,216	\$ 110,324
Residual Receipts – HUD - Wells Fargo	2,835	2,834
Total Cash - HUD	\$ 142,051	\$ 113,158

Gateway has an agreement with the U.S. Department of Housing and Urban Development (HUD) whereby HUD is to provide additional funding based on the financial needs of Gateway’s residents.

The regulatory agreement with HUD requires that *Gateway Farms* establish and maintain a reserve fund for replacements. HUD also requires *Gateway Farms* to establish a reserve for residual receipts. These balances can only be withdrawn with HUD approval.

4. Promises to Give

Promises to give consist of the following at September 30, 2014:

Restricted to programs and maintenance for Ramona Repress Center	\$ 8,000
Unrestricted promises to give	12,213
Total Promises to Give	\$ 20,213

Gateway expects that contributors will remit these contributions within one year.

In order to simplify their accounting process for promises to give, Gateway has elected to record all promises to give at fair value. The process utilizes the income approach with discounted cash flows, providing a single discounted value for all promises to give.

There is no discount for 2014, as all pledges are expected to be collected in the next year. No changes in the fair value measurement were attributed to instrument specific credit risk.

5. Investments

Investment components consist of the following as of September 30, 2014:

	Cost	Market Value	Unrealized Gain (Loss)
Money market funds	\$ 170,648	\$ 170,648	\$ -
Common stock	2,016,801	2,559,881	543,080
Corporate bonds	307,697	307,668	(29)
Mutual funds	8,483	10,873	2,390
	<u>\$ 2,503,629</u>	<u>\$ 3,049,070</u>	<u>\$ 545,441</u>

Investment income consists of the following:

Interest and dividend income	\$ 88,290
Unrealized gains	206,280
Realized gains net of realized losses	84,071
Investment expenses	<u>(24,657)</u>
Total Investment Income	<u>\$ 353,984</u>

6. Endowment Funds

Gateway's endowment consists of two donor-restricted funds as well as board-restricted funds. During 2012, a fund in the amount of \$5,500 was permanently restricted by the donor and the income is used for operations of programs. There were no additions to this fund during 2014 and 2013. During 2011, Gateway recognized a receivable for another fund in the amount of \$1,200,000. The donor designated eighty percent of the monies as an endowment fund and the income and the remainder of the gift will be used for operations of programs. This amount was received in 2012, along with an additional \$278,157. As required by generally accepted accounting principles (GAAP), net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

At September 30, 2014, the endowment net asset composition by type of fund was as follows:

	Unrestricted	Temporarily	Permanently Restricted
Donor-restricted endowments	\$ -	\$ 363,013	\$ 1,243,657
Board-designated endowments	<u>1,033,626</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,033,626</u>	<u>\$ 363,013</u>	<u>\$ 1,243,657</u>

The management of donor-restricted endowment funds is governed by state law under the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the Virginia state legislature in 2008. The law gives guidance for investment and spending practices, giving consideration for donor-intent and the organization's overall resources and charitable purpose. Based on their interpretation of law and in

compliance with donor intent, Gateway classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment.

Gateway appropriates amounts for expenditure based upon accumulated earnings in the funds and the needs of the organization. The primary objective is long-term capital appreciation and total return. Gateway utilizes diversified investment classes that provide the opportunity to achieve the return objectives without exposing the funds to unnecessary risk.

A summary of the activity in endowment funds for the year ended September 30, 2014, is as follows:

	Unrestricted	Temporarily	Permanently Restricted	Total
Endowment net assets – beginning of year	\$ 948,404	\$ 220,909	\$ 1,243,657	\$ 2,412,970
Investment income	34,978	52,875		87,853
Net realized and unrealized gain	115,770	174,583		290,353
Investment fees	(10,316)	(15,354)		(25,670)
Transfers	(3,181)			
Appropriated for expenditure		(70,000)		(70,000)
Change in annuity liability	(52,029)			(52,029)
Endowment net assets – end of year	\$ 1,033,626	\$ 363,013	\$ 1,243,657	\$ 2,643,477

7. Fairfax Property

Gateway received donated property valued at \$298,184 from the County of Fairfax during 2013. A promissory note agreement for the same amount was simultaneously entered into by Gateway and the County of Fairfax. The promissory note agreement, dated April 25, 2013, bears no interest and is not required to be repaid as long as the housing remains available to extremely low and moderate income persons for a period of 30 years. The promissory note is secured by a deed of trust on the property. Upon non-compliance with the agreement, the promissory note shall become immediately due and payable at an annual interest rate of the prime rate plus four basis points. The donated value of the property is reflected in the organization’s temporarily restricted net assets in the combined statement of activities.

Since the possibility of failing to meet the use criteria is remote, the note payable has not been recorded by Gateway.

8. Fair Value Measurements

Accounting standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Gateway’s investments are measured using Level 1 inputs.

- | | |
|---------|--|
| Level 1 | Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Gateway has the ability to access. |
| Level 2 | Inputs to the valuation methodology include: <ul style="list-style-type: none"> • quoted prices for similar assets or liabilities in active markets; • quoted prices for identical or similar assets or liabilities in inactive markets; |

- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2014.

Fixed income, money market and mutual funds and common stocks: Valued at the closing price reported on the active market on which the individual securities are traded.

Promises to give: Valued using the income approach based on discounted cash flows.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Gateway believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, Gateway's assets at fair value as of September 30, 2014:

	Level 1	Level 2	Level 3	Total
Corporate Bonds	\$ 307,668	\$ -	\$ -	\$ 307,668
Money market and mutual funds	181,521	-	-	181,521
Common stocks:		-	-	
Closed-end mutual funds	180,919	-	-	180,919
Consumer discretionary	154,605	-	-	154,605
Consumer staples	363,765	-	-	363,765
Energy	218,342	-	-	218,342
Financials	508,967	-	-	508,967
Health care	211,829	-	-	211,829
Industrials	272,299	-	-	272,299
Information technology	131,106	-	-	131,106
Materials	129,727	-	-	129,727
Miscellaneous	42,859	-	-	42,859
Real estate investment trusts	228,500	-	-	228,500
Telephone	82,419	-	-	82,419
Utilities	34,544	-	-	34,544
Promises to give	-	-	20,213	20,213
Total assets at fair value	\$ 3,049,070	\$ -	\$ 20,213	\$ 3,069,283

Level 3 Promises to Give

The table below sets forth a summary of changes in the fair value of Gateway's level 3 assets for 2014:

Balance – beginning of year	\$ 38,696
New pledges	14,650
Pledge payments	(33,108)
Change in fair value	<u>(25)</u>
Balance – end of year	<u>\$ 20,213</u>

9. Charitable Gift Annuity Obligation

Gateway is a remainder beneficiary of a charitable gift annuity dated 2001 which is recorded at the present value of the expected payout based on the life expectancies of the donor. The discount rate is 7%. The annual payout is \$70,000. During the term of an agreement, any changes in actuarial assumptions are recognized as "change in value of split-interest agreements" in the combined statement of activities.

A summary of the change in invested charitable gift and annuity obligation for the year ended September 30, 2014, is as follows:

	Invested Balance	Annuity Obligation	Net
Balance – beginning of year	\$ 959,999	\$ 248,064	\$ 711,935
Annuity payments	(70,000)	(70,000)	-
Investment gain	34,978	-	34,978
Change in value	105,454	52,029	53,425
Balance – end of year	<u>\$ 1,030,431</u>	<u>\$ 230,093</u>	<u>\$ 800,338</u>

10. Mortgage Payable

The mortgage payable to HUD is collateralized by Gateway Farms' land and improvements and will mature September 1, 2029. The monthly payment of \$3,100 includes interest at 8.875%. The principal balance at September 30, 2014, was \$307,927. Future minimum principal payments as of September 30, 2014, are as follows:

2015	\$ 10,287
2016	11,238
2017	12,277
2018	13,412
2019	14,652
Thereafter	<u>246,061</u>
Total Mortgage Payable	<u>\$ 307,927</u>

Under agreements with HUD, Gateway is required to make monthly deposits for replacement of project assets and is subject to restrictions as to operating policies, rental charges, operating expenditures, and distributions. The liability of Gateway under the mortgage note is limited to the underlying value of the real estate collateral plus other amounts deposited with HUD.

11. Net Asset Classifications

Board designated net assets at September 30, 2014, consist of the following:

Future capital acquisitions	\$ 803,533
Payment of annuity liability	<u>230,093</u>
	<u>\$ 1,033,626</u>

Temporarily restricted net assets at September 30, 2014, consist of the following:

Accumulated endowment earnings	\$ 363,013
Ramona Repress Center – Kitchen Remodel	36,386
Affordable low income housing	287,362
Nurse practitioner salaries and related expenses	<u>190,295</u>
	<u>\$ 877,056</u>

Permanently restricted net assets at September 30, 2014, consist of the following:

Endowment requiring income to be used for operation of programs	<u>\$ 1,243,657</u>
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12. Retirement Plan

Gateway sponsors a SIMPLE IRA covering qualified employees. Employer contributions to the plan are made at the discretion of the Board of Directors. Gateway matched the employee contributions up to a maximum of 3% of gross wages for 2014 and 2013 in the amount of \$36,041 and \$28,718, respectively.

13. Related Party Transactions

A member of the Board of Directors is the account officer for Gateway's investment account held by a third party. A portion of the investment fees, which totaled \$24,657 for 2014 and \$21,361 for 2013, is paid to the board member by the investment company.

14. Prior Period Adjustments

Two prior period adjustments were made for errors discovered in the September 30, 2013, financial statements. The first adjustment was to correct the expensing of a legal fee retainer in the amount of \$5,000 which resulted in an increase in the reported change in net assets of \$5,000. The second adjustment was to correct a duplicate credit card payable entry in the amount of \$12,780 which resulted in an increase in the reported change in net assets of \$12,780.

15. Reclassification

Certain prior year balances have been reclassified to conform to current year presentation.

16. Evaluation of Subsequent Events

Gateway Homes, Inc. and Gateway Farms has evaluated subsequent events through May 8, 2015, the date which the financial statements were available to be issued.

***Gateway Homes, Inc.
and Gateway Farms***

Supplementary Information

Year Ended September 30, 2014

Gateway Homes, Inc. and Gateway Farms

Combined Schedules of Functional Expenses

Years Ended September 30, 2014 and 2013

	2014				2013
	Program Services	Management and General	Fundraising	Total	Total
Salaries and Related Expenses					
Salaries	\$ 1,456,805	\$ 159,093	\$ 63,262	\$ 1,679,160	\$ 1,525,035
Employee Benefits and Payroll Taxes	267,321	22,273	5,694	295,288	265,891
Total Salaries and Related Expenses	\$ 1,724,126	\$ 181,366	\$ 68,956	\$ 1,974,448	\$ 1,790,926
Expenses					
Fairfax Program Expense	\$ 68,512	\$ -	\$ -	\$ 68,512	\$ 80,916
Food	30,427	-	2,034	32,461	26,332
Fundraising Expense	-	-	7,921	7,921	-
Human Rights Affiliates Expense	451	-	-	451	812
Insurance	46,926	11,732	-	58,658	46,626
Occupancy - Chesterfield	138,775	-	-	138,775	138,886
Occupancy - CSS Program	74,237	-	-	74,237	90,881
Office Expense	50,551	12,488	-	63,039	45,187
Other Operating Expenses	5,436	-	1,619	7,055	12,218
Penalties and Interest	-	3,567	-	3,567	-
Professional Fees	11,754	30,920	4,312	46,986	44,996
Program Initiative Supplies	12,440	-	-	12,440	33,585
PSR Program Expenses	24,338	-	-	24,338	18,441
Residence	156,235	-	-	156,235	110,335
Staff Development	15,083	15,749	3,114	33,946	36,372
Transportation	28,451	918	-	29,369	25,944
Total Expenses Before Depreciation	\$ 2,387,742	\$ 256,740	\$ 87,956	\$ 2,732,438	\$ 2,502,457
Depreciation	135,616	-	-	135,616	129,193
Total Functional Expenses	\$ 2,523,358	\$ 256,740	\$ 87,956	\$ 2,868,054	\$ 2,631,650

See accompanying notes and independent auditors' report.