

# Gateway Homes, Inc.

Combined Financial Statements

September 30, 2017



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# GATEWAY HOMES, INC.

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of  
Gateway Homes, Inc.  
Richmond, Virginia

### Report on the Combined Financial Statements

We have audited the accompanying combined financial statements of Gateway Homes, Inc. and Gateway Farms (collectively, the "Organization"), which comprise the combined statement of financial position as of September 30, 2017, and the related combined statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the combined financial statements.

### 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; 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 combined financial position of Gateway Homes, Inc. and Gateway Farms as of September 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

## **Report on Summarized Comparative Information**

We have previously audited Gateway Homes, Inc. and Gateway Farms' 2016 combined financial statements, and we issued an unmodified audit opinion on those combined financial statements in our report dated March 21, 2017. In our opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

A handwritten signature in black ink, appearing to read "Keiter", with a stylized flourish at the end.

January 22, 2018  
Glen Allen, Virginia

**GATEWAY HOMES, INC.**

Combined Statements of Financial Position  
September 30, 2017 With Summarized Totals as of September 30, 2016

	2017	2016
Current assets:		
Cash and cash equivalents	\$ 137,248	\$ 75,839
Cash - HUD	173,213	172,844
Investments - current	70,000	70,000
Accounts receivable - net	621,271	321,026
Prepaid expenses and other	31,774	42,654
Total current assets	1,033,506	682,363
Property and equipment:		
Land	306,029	306,029
Buildings and improvements	3,355,049	3,339,987
Furniture and equipment	225,862	151,740
Vehicles	380,746	220,025
Construction in progress	4,061	3,568
	4,271,747	4,021,349
Less accumulated depreciation	(1,476,069)	(1,315,315)
Total property and equipment - net	2,795,678	2,706,034
Investments - noncurrent	2,443,515	2,898,355
Total assets	\$ 6,272,699	\$ 6,286,752

See accompanying notes to combined financial statements.

**GATEWAY HOMES, INC.**

Combined Statements of Financial Position, Continued  
September 30, 2017 With Summarized Totals as of September 30, 2016

	<u>2017</u>	<u>2016</u>
Current liabilities:		
Mortgage payable - current	\$ 13,412	\$ 12,277
Notes payable - current	23,314	82,344
Accounts payable	56,738	62,042
Accrued expenses	252,008	135,500
Liability under charitable gift annuity - current	<u>70,000</u>	<u>70,000</u>
Total current liabilities	415,472	362,163
Mortgage payable - noncurrent	259,575	275,348
Notes payable - noncurrent	102,722	166,345
Liability under charitable gift annuity - noncurrent	<u>231,454</u>	<u>207,039</u>
Total liabilities	<u>1,009,223</u>	<u>1,010,895</u>
Net assets:		
Unrestricted:		
Undesignated	2,549,106	2,188,731
Board designated	<u>1,054,390</u>	<u>1,029,975</u>
	3,603,496	3,218,706
Temporarily restricted	416,323	813,494
Permanently restricted	<u>1,243,657</u>	<u>1,243,657</u>
Total net assets	<u>5,263,476</u>	<u>5,275,857</u>
Total liabilities and net assets	<u>\$ 6,272,699</u>	<u>\$ 6,286,752</u>

See accompanying notes to combined financial statements.

## GATEWAY HOMES, INC.

### Combined Statements of Activities Year Ended September 30, 2017 With Summarized Totals for the Year Ended September 30, 2016

	Unrestricted			Temporarily Restricted	Permanently Restricted	2017 Total	2016 Total
	Undesignated	Board Designated	Total				
Revenues, gains, and other support:							
Resident fees	\$ 4,290,601	\$ -	\$ 4,290,601	\$ -	\$ -	\$ 4,290,601	\$ 2,774,499
Grants	58,753	-	58,753	257,545	-	316,298	318,400
Contributions	125,320	-	125,320	-	-	125,320	143,041
Federal housing assistance	127,673	-	127,673	-	-	127,673	124,281
Investment income, net	160,804	-	160,804	191,385	-	352,189	363,332
Miscellaneous	2,903	-	2,903	-	-	2,903	2,806
	4,766,054	-	4,766,054	448,930	-	5,214,984	3,726,359
Net assets transferred	(24,415)	24,415	-	-	-	-	-
Net assets released from restriction	846,101	-	846,101	(846,101)	-	-	-
Total revenues, gains, and other support	5,587,740	24,415	5,612,155	(397,171)	-	5,214,984	3,726,359
Expenses and losses:							
Program services	4,308,694	-	4,308,694	-	-	4,308,694	3,018,947
Management and general	609,735	-	609,735	-	-	609,735	342,188
Fundraising	214,521	-	214,521	-	-	214,521	224,405
Total expenses	5,132,950	-	5,132,950	-	-	5,132,950	3,585,540
Change in value of charitable gift annuity obligation	94,415	-	94,415	-	-	94,415	125,904
Total expense and losses	5,227,365	-	5,227,365	-	-	5,227,365	3,711,444
Change in net assets	360,375	24,415	384,790	(397,171)	-	(12,381)	14,915
Net assets, beginning of year	2,188,731	1,029,975	3,218,706	813,494	1,243,657	5,275,857	5,260,942
Net assets, end of year	\$ 2,549,106	\$ 1,054,390	\$ 3,603,496	\$ 416,323	\$ 1,243,657	\$ 5,263,476	\$ 5,275,857

See accompanying notes to combined financial statements.

## GATEWAY HOMES, INC.

### Combined Statements of Functional Expenses Year Ended September 30, 2017 With Summarized Totals for the Year Ended September 30, 2016

	2017			2016	
	Program Services	Management and General	Fundraising	Total	Total
Salaries and related expenses:					
Salaries	\$ 2,834,538	\$ 217,100	\$ 64,276	\$ 3,115,914	\$ 2,019,891
Contract labor	41,076	3,146	931	45,153	71,385
Employee benefits and payroll taxes	501,804	53,545	24,136	579,485	356,646
Total salaries and related expenses	<u>3,377,418</u>	<u>273,791</u>	<u>89,343</u>	<u>3,740,552</u>	<u>2,447,922</u>
Expenses:					
Bad debt	-	33,045	-	33,045	32,194
Food	93,348	29	-	93,377	58,747
Human rights affiliates expense	-	-	-	-	297
Insurance	11,412	83,571	-	94,983	76,418
Interest	25,856	-	-	25,856	30,311
Medical supplies	7,258	-	-	7,258	1,778
Occupancy	284,833	-	-	284,833	228,395
Office expenses	23,566	29,353	10,441	63,360	48,643
Other operating expenses	-	52,312	3,110	55,422	55,710
Professional fees	26,876	112,380	110,378	249,634	209,111
PSR program expenses	51,498	-	-	51,498	29,346
Repairs and maintenance	4,836	7,518	-	12,354	5,909
Resident expenses	174,133	-	-	174,133	132,976
Staff development	14,163	10,975	196	25,334	35,685
Supplies	11,488	126	-	11,614	24,971
Transportation	41,255	6,635	1,053	48,943	44,229
Total expenses before depreciation	<u>4,147,940</u>	<u>609,735</u>	<u>214,521</u>	<u>4,972,196</u>	<u>3,462,642</u>
Depreciation	160,754	-	-	160,754	122,898
Total functional expenses	<u>\$ 4,308,694</u>	<u>\$ 609,735</u>	<u>\$ 214,521</u>	<u>\$ 5,132,950</u>	<u>\$ 3,585,540</u>

See accompanying notes to combined financial statements.



## GATEWAY HOMES, INC.

Combined Statements of Cash Flows  
Year Ended September 30, 2017 With Summarized Totals for Year Ended September 30, 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (12,381)	\$ 14,915
Adjustments to reconcile change in net assets to net cash from operating activities:		
Bad debt expense	33,045	32,194
Depreciation	160,754	122,898
Investment income reinvested, net	(352,189)	(363,332)
Payment on mortgage payable balance via reduction in tenant assistance payments received	(14,638)	(10,015)
Change in value of charitable gift annuity obligation	94,415	125,904
Change in:		
Accounts receivable - net	(333,290)	(210,795)
Prepaid expenses	10,880	(10,393)
Accounts payable	(5,304)	34,769
Accrued expenses	116,508	26,012
Deferred revenue	-	(75,180)
	(302,200)	(313,023)
Net cash used in operating activities		
Cash flows from investing activities:		
Net deposits to reserves for replacements, minimum capital, and interest earned on cash - HUD	(369)	(10,955)
Purchase of property and equipment	(122,398)	(225,419)
Proceeds from sale of investments	737,029	300,000
Net withdrawal from investments for annuity payments	70,000	70,000
	684,262	133,626
Net cash provided by investing activities		
Cash flows from financing activities:		
Payments on notes payable	(250,653)	-
Proceeds from notes payable	-	248,689
Charitable gift annuity obligation distributions	(70,000)	(70,000)
	(320,653)	178,689
Net cash (used in) provided by financing activities		

See accompanying notes to combined financial statements.

**GATEWAY HOMES, INC.**

Combined Statements of Cash Flows, Continued  
Year Ended September 30, 2017 With Summarized Totals for Year Ended September 30, 2016

	<u>2017</u>	<u>2016</u>
Net change in cash and cash equivalents	\$ 61,409	\$ (708)
Cash and cash equivalents, beginning of year	<u>75,839</u>	<u>76,547</u>
Cash and cash equivalents, end of year	<u>\$ 137,248</u>	<u>\$ 75,839</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 25,856</u>	<u>\$ 30,311</u>
Supplemental disclosure of noncash investing and financing activities:		
Purchase of property and equipment with notes payable	<u>\$ 128,000</u>	<u>\$ -</u>

See accompanying notes to combined financial statements.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements

#### 1. 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 the Organization. All intercompany transactions and balances are eliminated in these combined financial statements.

#### 2. Summary of Significant Accounting Policies:

**Basis of Accounting:** The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States ("GAAP") as determined by the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC").

**Basis of Presentation:** The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's combined financial statements for the year ended September 30, 2016, from which the summarized information was derived.

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets include the revenues and expenses of the primary operations of the Organization. If the Board specifies a purpose where none has been stated by the original donor, such assets are classified as board-designated within unrestricted net assets. Board-designated assets totaled \$1,054,390 at September 30, 2017.

Temporarily restricted net assets – Net assets that are stipulated by donors for specific purposes or which have temporary time restrictions. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets that are subject to donor-imposed stipulations that require the Organization maintain them permanently.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Use of Estimates:** The preparation of combined 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 and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the periods reported. Actual results could differ from those estimates.

**Cash and Cash Equivalents:** The Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Accounts Receivable:** Accounts receivable include amounts due from the U.S. Government and Virginia community service boards for services provided to residents and are reported net of an allowance for doubtful accounts. The allowance is based on management's estimate of the amount of receivables that will actually be collected. As of September 30, 2017, the allowance for doubtful accounts was \$66,825.

**Investments:** Investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the combined statement of financial position. Net income or loss, including unrealized gains and losses, is included in the change in net assets in the accompanying combined statement of activities.

**Property and Equipment:** Property and equipment are stated at cost or, if donated, appraised value at date of gift. Major repairs and betterments are capitalized and normal maintenance and repairs are charged to expense as incurred. Depreciation is computed by the straight-line method over the estimated useful lives of the related assets, which range from 5 to 40 years.

**Valuation of Long-Lived Assets:** The Organization accounts for the valuation of long-lived assets under GAAP, which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the assets to future undiscounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of carrying amount or fair value, less cost to sell. There were no impairments identified during 2017.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Resident Fees:** Resident fees are reported at estimated net realizable amounts from resident and third-party payers for services rendered. Revenue from the Medicaid program accounted for a significant portion of the Organization's resident fees for 2017. 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. Medicaid income accounted for 11% of resident fees in 2017. In addition, approximately 46% of the Organization's resident fees for 2017 are funded by two Virginia counties.

**Contributions:** Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the nature of donor restrictions, if any.

Donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Endowment contributions are permanently restricted by the donor.

Contributions of assets other than cash are recorded at their estimated fair market value at the time of donation. There were no non-cash contributions during 2017.

**Contributed Materials and Services:** In accordance with GAAP, the Organization records 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 typically need to be purchased if they had not been contributed. There were no such contributed materials or services during 2017. In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs, campaign solicitations and various committee assignments. The value of these services are not recognized in the combined financial statements.

**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 and in the combined statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Income Taxes:** The Organization is exempt from income taxes under the provision of Section 501(c)(3) of the Internal Revenue Code.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 2. Summary of Significant Accounting Policies, Continued:

**Income Tax Uncertainties:** The Organization follows the FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the combined financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management has evaluated the Organization's tax position and concluded that the Organization had taken no uncertain tax positions that require adjustment to the combined financial statements to comply with the provisions of this guidance. The Organization is not currently under audit by any tax jurisdiction.

**Concentration of Credit Risk:** Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents, accounts receivable, and investments.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant financial credit risk on cash.

The Organization has receivables due from federal and state governments and agencies. Management believes credit risk related to these receivables is limited due to their nature.

The Organization invests in various investments securities, which are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risk in the near term would affect the investment balance and the amount reported in the accompanying combined financial statements.

**Reclassification:** Certain prior year balances have been reclassified to conform with the current year presentation.

**Subsequent Events:** Management has evaluated subsequent events through January 22, 2018, the date the combined financial statements were available to be issued, and has determined there are no subsequent events to be reported in the accompanying combined financial statements.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 3. Reserves and Residual Receipts:

The Organization 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 the Organization's residents.

The regulatory agreement with HUD requires that the Organization establish and maintain a reserve fund for replacements. HUD also requires the Organization to establish a reserve for residual receipts. These restricted balances are segregated from operating cash in a separate bank account and can only be withdrawn with HUD approval.

#### 4. Investments:

At September 30, 2017, investments consist of the following:

	Cost	Market Value	Unrealized Gain
Money market funds	\$ 115,451	\$ 115,451	\$ -
Common stock	1,400,252	2,078,713	678,461
Mutual funds	9,814	13,233	3,419
Corporate bonds	304,658	306,118	1,460
	\$ 1,830,175	\$ 2,513,515	\$ 683,340

Investment income, net consist of the following:

Interest and dividend income	\$ 81,096
Realized and unrealized gains, net	277,414
Investment expenses	(6,321)
	\$ 352,189

#### 5. Fair Value Measurements:

The Organization follows FASB guidance with respect to fair value measurements. This guidance provides a framework for measuring fair value under GAAP, for all financial assets and liabilities measured at fair value on a recurring basis.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 5. Fair Value Measurements, Continued:

The guidance establishes a three-level hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the assets or liabilities fall within different levels of the hierarchy, the classification is based on the lowest level that is significant to the fair value measurement of the asset or liability.

Classification of assets and liabilities within the hierarchy considers the market in which the assets or liabilities are traded and the reliability and transparency of the assumptions used to determine fair value. The hierarchy requires the use of observable market data when available. The levels of the hierarchy are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs to the valuation methodology are quoted prices for similar instruments in active and inactive markets; and model driven valuations with significant inputs and drivers derived from observable active markets.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement. There were no assets or liabilities classified as Level 3 at September 30, 2017.

The following is a description of the valuation methodologies used for assets measured at fair value:

**Money market:** Valued at the cash balance.

**Common stock:** Valued at the closing price as reported on the active market on which stocks are traded.

**Mutual funds:** Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

**Corporate bonds:** Valued at the closing price as reported on the active market on which bonds are traded.

**Charitable gift annuity obligation:** Valued at present value of the future payment obligations under the annuity agreement.



**GATEWAY HOMES, INC.**

Notes to Combined Financial Statements, Continued

**5. Fair Value Measurements, Continued:**

Assets and liabilities measured at fair value at September 30, 2017 include the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Money market funds	\$ 115,451	\$ -	\$ 115,451
Common stocks:			
Closed-end mutual funds	75,638	-	75,638
Consumer discretionary	142,610	-	142,610
Consumer staples	249,193	-	249,193
Energy	212,249	-	212,249
Financials	448,692	-	448,692
Health care	223,353	-	223,353
Industrials	277,657	-	277,657
Information technology	117,747	-	117,747
Materials	118,095	-	118,095
Real estate			
investment trusts	147,792	-	147,792
Telephone	30,684	-	30,684
Utilities	35,003	-	35,003
Mutual funds	13,233	-	13,233
Corporate bonds	306,118	-	306,118
	<u>\$ 2,513,515</u>	<u>\$ -</u>	<u>\$ 2,513,515</u>
Liabilities:			
Charitable gift annuity obligation	\$ -	\$ 301,454	\$ 301,454
	<u>\$ -</u>	<u>\$ 301,454</u>	<u>\$ 301,454</u>

**6. Fairfax Property:**

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

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 7. **Charitable Gift Annuity Obligation:**

The Organization 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 expectancy of the donor. The discount rate is the IRS Section 7520 rate. The annual payout is \$70,000. During the term of the agreement, any changes in actuarial assumptions are recognized as "change in charitable gift annuity obligation" in the accompanying combined statements of activities.

A summary of the change in the invested balance and obligation liability of the charitable gift annuity for the year ended September 30, 2017, is as follows:

Balance - beginning of year	\$ 277,039
Annuity payments	(70,000)
Change in value	<u>94,415</u>
Balance - end of year	<u>\$ 301,454</u>

The Organization has board designated a portion of its investments to fund the charitable gift annuity obligation.

#### 8. **Line of Credit:**

The Organization has available a revolving line of credit with a commercial bank providing for maximum borrowings of \$250,000. Interest on the outstanding principal balance accrues at the Wall Street Journal Prime Rate plus .25%. The line is payable on demand. There was no balance on the line of credit at September 30, 2017.

#### 9. **Notes Payable:**

In May 2016, the Organization entered into a promissory note in the amount of \$250,000 with a commercial bank. The note required interest only payments until June 2017 and principal and interest payments through maturity on May 18, 2018. Interest was calculated at the Wall Street Journal Prime Rate plus .25%. The note was secured by certain assets of the Organization. This note was paid in full in July 2017.

In August 2017, the Organization entered into a promissory note in the amount of \$128,000 with a commercial bank. The note requires monthly payments of principal and interest at 4.8% through maturity in August 2022. The note is secured by certain assets of the Organization. The balance on the note was \$126,036 at September 30, 2017.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 9. Notes Payable, Continued:

Future minimum principal payments on notes payable as of September 30, 2017, are as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2018	\$ 23,314
2019	24,458
2020	25,658
2021	26,918
2022	<u>25,688</u>
	<u>\$ 126,036</u>

#### 10. Mortgage Payable - HUD:

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%, and is made via a deduction in tenant assistance payments received from HUD. The principal balance at September 30, 2017, was \$272,987.

Future minimum principal payments as of September 30, 2017, are as follows:

<u>Year Ending September 30:</u>	<u>Amount</u>
2018	\$ 13,412
2019	14,652
2020	16,007
2021	17,487
2022	19,104
Thereafter	<u>192,325</u>
	<u>\$ 272,987</u>

Under agreements with HUD, the Organization 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 the Organization under the mortgage note is limited to the underlying value of the real estate.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 11. Restricted Net Assets:

Temporarily restricted net assets at September 30, 2017, consist of the following:

Affordable low income housing	\$ 364,816
Lights and paving	6,838
Strategic thinking and healthcare access	8,201
HPRV - Williamsburg	20,000
Accumulated endowment earnings	<u>16,468</u>
	<u>\$ 416,323</u>

Net assets were released from donor restrictions during 2017 by incurring expenses satisfying the restricted purposes, as follows:

Affordable low income housing	\$ 24,736
Lights and paving	8,162
Nurse practitioner salaries and related expenses	81,563
Occupational therapist	68,441
Strategic thinking and healthcare access	6,799
Accumulated endowment earnings	<u>656,400</u>
	<u>\$ 846,101</u>

Permanently restricted net assets consist of endowment fund investments to be held indefinitely. The income from these assets is used to support the Organization's programs or as stipulated by the donor.

#### 12. Endowment Funds:

The Organization has several endowment funds established to support its programs. The endowment funds include both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions as required by GAAP.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 12. Endowment Funds, Continued:

**Interpretation of Relevant Law:** The Board of Directors of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment funds that are not classified as permanently restricted net assets are classified as temporarily restricted net assets until those amounts appropriated for expenditure are disbursed in accordance with the donor restrictions in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate funds in the endowment funds designated by the Board of Directors:

- 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

**Return Objectives and Risk Parameters:** The objective of the Organization's investment policy is to achieve long-term growth in principal while preserving capital through investment in a diversified portfolio of quality investment securities, producing a favorable investment return as compared against inflation. Notwithstanding this investment policy, all restrictions placed by donors or by law on the interest and investment earnings on any funds and their use shall be honored.

**Strategies Employed for Achieving Objectives:** To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization's asset allocation ranges for various asset classes shall be established from time to time by the Board of Directors with the assistance of the investment manager.

**GATEWAY HOMES, INC.**

Notes to Combined Financial Statements, Continued

**12. Endowment Funds, Continued:**

**Spending Policy and How the Investment Objectives Relate to Spending Policy:**

The Organization has a spending policy for the Board of Directors to periodically review and determine when it is necessary or desirable in connection with the execution of Organization's strategic plans and policies to make distributions from endowment funds other than as specifically required by donors. The income that may be spent, as determined by the Board of Directors or the donor's direction, may be drawn from both ordinary income earned (i.e., dividends, interest, etc.) and appreciation, both realized and unrealized.

**Funds with Deficits:** From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or the UPMIFA requires the Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no endowment funds with deficiencies of this nature as of September 30, 2017.

Endowment net asset composition by type of fund was as follows as of September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	\$ -	\$ 16,468	\$ 1,243,657	\$ 1,260,125
Board-designated endowments	1,054,390	-	-	1,054,390
	<u>\$ 1,054,390</u>	<u>\$ 16,468</u>	<u>\$ 1,243,657</u>	<u>\$ 2,314,515</u>

Changes in endowment net assets were as follows for the year ended September 30, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	\$ 1,029,975	\$ 481,483	\$ 1,243,657	\$ 2,755,115
Investment income	-	44,371	-	44,371
Net realized and unrealized gain	-	150,527	-	150,527
Investment fees	-	(3,513)	-	(3,513)
Transfers	24,415	-	-	24,415
Appropriated for expenditures	-	(656,400)	-	(656,400)
Endowment net assets - end of year	<u>\$ 1,054,390</u>	<u>\$ 16,468</u>	<u>\$ 1,243,657</u>	<u>\$ 2,314,515</u>

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

**13. Retirement Plan:**

The Organization sponsors a SIMPLE IRA covering qualified employees. Employer contributions to the plan are made at the discretion of the Board of Directors. The Organization matched the employee contributions up to a maximum of 3% of gross wages for 2017 in the amount of \$58,740.

**14. Related Party Transactions:**

A member of the Board of Directors is the account officer for the Organization's investment account held by a third party. A portion of the investment fees, which totaled \$6,321 for 2017, is paid to the board member by the investment company.

**15. Commitments and Contingencies:**

The Company leases equipment and office space under operating leases expiring at various terms through December 2021. Future minimum payments under the leases are as follows at September 30, 2017:

<u>Year Ending September 30:</u>	<u>Amount</u>
2018	\$ 45,196
2019	27,873
2020	26,168
2021	26,525
2022	<u>6,358</u>
	<u>\$ 132,120</u>

In April 2015, the Organization was notified of an alleged overpayment of \$292,704 received from the Department of Medical Assistance Services ("DMAS"). The overpayment is related to the location code used on claims to Virginia Medicaid. The Organization appealed the alleged overpayment and the amount in dispute was reduced to \$283,545 during the informal appeals process. The Organization then appealed through the administrative appeals process at the informal and formal levels. In 2017, a ruling was made in favor of the Organization retracting all payments allegedly owed to DMAS and ordering repayment of the Organization's attorney fees by DMAS.

## GATEWAY HOMES, INC.

### Notes to Combined Financial Statements, Continued

#### 16. New Accounting Guidance:

**Not-for-Profit Accounting:** In August 2016, FASB issued ASU No. 2016-14, “Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities”, which both simplifies certain aspects of reporting required by not-for-profit organizations and increases disclosures with a goal to improve the usefulness of not-for-profit financial statements to the various stakeholders, including management, directors, lenders, and donors. Significant changes include the following:

- Replaces the existing three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two new classes of net assets—net assets with donor restrictions and net assets without donor restrictions
- Changes the net asset classification of the underwater amounts of donor-restricted endowment funds to be shown as a component of *net assets with donor restrictions* and requires additional disclosures for underwater endowment funds
- Requires all not-for-profits to provide expenses by nature and function
- Requires expansive disclosures (both quantitative and qualitative) of information about liquidity and availability of resources

The amendments in this ASU are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has elected not to early adopt this ASU and intends to adopt it prior to the required transition date.

**Lease Accounting:** In February 2016, the FASB issued new guidance over leases which requires that all leasing activity with initial terms in excess of twelve months be recognized on the balance sheet with a right of use asset and a lease liability. The standard will require entities to classify leases as either a finance, or operating lease based upon the contractual terms. For finance leases, the right to use asset and lease liability will be calculated based upon the present value of the lease payments. The asset will then be amortized and the interest on the obligation will be recognized separately within the statement of operations. On the statement of cash flows, the principal portion of the finance lease payments will be classified as a financing activity. For operating leases, the right to use asset and lease liability will also be calculated based upon the present value of the lease payments. However, the cost of the lease will generally be allocated over the lease term on a straight-line basis and presented as a single expense on the statement of operations. On the statement of cash flows, all cash payments for operating leases will be classified as an operating activity. The new standard will be effective for periods beginning after December 15, 2019, and will require entities to use a modified retrospective approach to the earliest period presented. The Company is currently evaluating the reporting and economic implications of the new standard.