Gateway Homes, Inc.

Combined Financial Statements

September 30, 2018 and 2017

Keiter
Your Opportunity Advisors

4401 Dominion Boulevard
Glen Allen, Virginia 23060
Tel: 804.747.0000
www.keitercpa.com

GATEWAY HOMES, INC.

Table of Contents

Keiter
Your Opportunity Advisors

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, 2018, 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.

Certified Public
Accountants & Consultants
4401 Dominion Boulevard
Glen Allen, VA 23060
T:804.747.0000 F:804.747.3632

www.keitercpa.com

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, 2018, 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' 2017 combined financial statements, and we issued an unmodified audit opinion on those combined financial statements in our report dated January 22, 2018. In our opinion, the summarized comparative information presented herein is consistent, in all material respects, with the audited combined financial statements from which is has been derived.

Keiter

March 11, 2019
Glen Allen, Virginia

GATEWAY HOMES, INC.

Combined Statements of Financial Position
September 30, 2018 With Summarized Totals as of September 30, 2017

	2018	2017
Current assets:		
Cash and cash equivalents	$ 136,478	$ 137,248
Cash - HUD	173,635	173,213
Investments - current	70,000	70,000
Accounts receivable - net	1,156,599	621,271
Prepaid expenses and other	29,800	31,774
Total current assets	1,566,512	1,033,506
Property and equipment:		
Land	306,029	306,029
Buildings and improvements	3,365,876	3,355,049
Furniture and equipment	277,419	225,862
Vehicles	527,633	380,746
Construction in progress	-	4,061
	4,476,957	4,271,747
Less accumulated depreciation	(1,736,365)	(1,476,069)
Total property and equipment - net	2,740,592	2,795,678
Investments - noncurrent	1,977,946	2,443,515
Total assets	$ 6,285,050	$ 6,272,699

See accompanying notes to combined financial statements.

GATEWAY HOMES, INC.

Combined Statements of Financial Position, Continued
September 30, 2018 With Summarized Totals as of September 30, 2017

	2018	2017
Current liabilities:		
Line of credit	$ 250,000	$ -
Mortgage payable - current	14,652	13,412
Note payable - current	24,458	23,314
Accounts payable	112,345	56,738
Accrued expenses	415,288	252,008
Liability under charitable gift annuity - current	70,000	70,000
Total current liabilities	886,743	415,472
Mortgage payable - noncurrent	246,058	259,575
Note payable - noncurrent	81,494	102,722
Liability under charitable gift annuity - noncurrent	205,703	231,454
Total liabilities	1,419,998	1,009,223
Net assets:		
Unrestricted:		
Undesignated	2,485,337	2,549,106
Board designated	752,936	1,054,390
	3,238,273	3,603,496
Temporarily restricted	383,122	416,323
Permanently restricted	1,243,657	1,243,657
Total net assets	4,865,052	5,263,476
Total liabilities and net assets	$ 6,285,050	$ 6,272,699

See accompanying notes to combined financial statements.

GATEWAY HOMES, INC.

Combined Statements of Activities
Year Ended September 30, 2018 With Summarized Totals for the Year Ended September 30, 2017

	Unrestricted						
	Undesignated	Board Designated	Total	Temporarily Restricted	Permanently Restricted	2018 Total	2017 Total
Revenues, gains, and other support:							
Resident fees	$ 6,909,679	$ -	$ 6,909,679	$ -	$ -	$ 6,909,679	$ 4,290,601
Grants	53,550	-	53,550	211,000	-	264,550	316,298
Contributions	128,730	-	128,730	-	-	128,730	125,320
Federal housing assistance	99,856	-	99,856	-	-	99,856	127,673
Investment income, net	90,613	-	90,613	69,941	-	160,554	352,189
Miscellaneous	11,868	-	11,868	-	-	11,868	2,903
	7,294,296	-	7,294,296	280,941	-	7,575,237	5,214,984
Net assets transferred	25,751	(25,751)	-	-	-	-	-
Net assets released from restriction/designation	589,845	(275,703)	314,142	(314,142)	-	-	-
Total revenues, gains, and other support	7,909,892	(301,454)	7,608,438	(33,201)	-	7,575,237	5,214,984
Expenses and losses:							
Program services	6,734,790	-	6,734,790	-	-	6,734,790	4,308,694
Management and general	841,078	-	841,078	-	-	841,078	576,690
Fundraising	224,867	-	224,867	-	-	224,867	214,521
Total expenses	7,800,735	-	7,800,735	-	-	7,800,735	5,099,905
Change in value of charitable gift annuity obligation	44,249	-	44,249	-	-	44,249	94,415
Bad debts	128,677	-	128,677	-	-	128,677	33,045
Total expenses and losses	7,973,661	-	7,973,661	-	-	7,973,661	5,227,365
Change in net assets	(63,769)	(301,454)	(365,223)	(33,201)	-	(398,424)	(12,381)
Net assets, beginning of year	2,549,106	1,054,390	3,603,496	416,323	1,243,657	5,263,476	5,275,857
Net assets, end of year	$ 2,485,337	$ 752,936	$ 3,238,273	$ 383,122	$ 1,243,657	$ 4,865,052	$ 5,263,476

See accompanying notes to combined financial statements.

GATEWAY HOMES, INC.

Combined Statements of Functional Expenses
Year Ended September 30, 2018 With Summarized Totals for the Year Ended September 30, 2017

	2018				2017
	Program Services	Management and General	Fundraising	Total	Total
Salaries and related expenses:					
Salaries	$ 4,184,823	$ 374,736	$ 77,363	$ 4,636,922	$ 3,115,914
Contract labor	-	-	-	-	45,153
Employee benefits and payroll taxes	760,034	103,557	23,128	886,719	579,485
Total salaries and related expenses	4,944,857	478,293	100,491	5,523,641	3,740,552
Expenses:					
Food	191,769	808	-	192,577	93,377
Insurance	3,825	130,927	-	134,752	94,983
Interest	22,726	14,985	-	37,711	25,856
Medical supplies	12,338	-	-	12,338	7,258
Occupancy	624,344	-	-	624,344	284,833
Office expenses	38,726	38,805	5,083	82,614	63,360
Other operating expenses	26,995	-	2,228	29,223	55,422
Professional fees	47,928	112,142	115,178	275,248	249,634
PSR program expenses	77,958	-	-	77,958	51,498
Repairs and maintenance	4,021	26,283	-	30,304	12,354
Resident expenses	323,449	-	-	323,449	174,133
Staff development	34,144	31,916	1,685	67,745	25,334
Supplies	50,572	-	-	50,572	11,614
Transportation	70,842	6,919	202	77,963	48,943
Total expenses before depreciation	6,474,494	841,078	224,867	7,540,439	4,939,151
Depreciation	260,296	-	-	260,296	160,754
Total functional expenses	$ 6,734,790	$ 841,078	$ 224,867	$ 7,800,735	$ 5,099,905

See accompanying notes to combined financial statements.

GATEWAY HOMES, INC.

Combined Statements of Cash Flows
Year Ended September 30, 2018 With Summarized Totals for Year Ended September 30, 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (398,424)	$ (12,381)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Bad debt expense	128,677	33,045
Depreciation	260,296	160,754
Investment income reinvested, net	(160,554)	(352,189)
Payment on mortgage payable balance via reduction in tenant assistance payments received	(12,277)	(14,638)
Change in value of charitable gift annuity obligation	44,249	94,415
Change in:		
Accounts receivable - net	(664,005)	(333,290)
Prepaid expenses	1,974	10,880
Accounts payable	55,607	(5,304)
Accrued expenses	163,280	116,508
Net cash used in operating activities	(581,177)	(302,200)
Cash flows from investing activities:		
Net deposits to reserves for replacements, minimum capital, and interest earned on cash - HUD	(422)	(369)
Purchase of property and equipment	(205,210)	(122,398)
Proceeds from sale of investments	556,123	737,029
Net withdrawal from investments for annuity payments	70,000	70,000
Net cash provided by investing activities	420,491	684,262
Cash flows from financing activities:		
Payments on notes payable	(20,084)	(250,653)
Proceeds from line of credit, net	250,000	-
Charitable gift annuity obligation distributions	(70,000)	(70,000)
Net cash provided by (used in) financing activities	159,916	(320,653)

See accompanying notes to combined financial statements.

GATEWAY HOMES, INC.

Combined Statements of Cash Flows, Continued
Year Ended September 30, 2018 With Summarized Totals for Year Ended September 30, 2017

	2018	2017
Net change in cash and cash equivalents	$ (770)	$ 61,409
Cash and cash equivalents, beginning of year	137,248	75,839
Cash and cash equivalents, end of year	$ 136,478	$ 137,248
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 37,711	$ 25,856
Supplemental disclosure of noncash investing and financing activities:		
Purchase of property and equipment with notes payable	$ -	$ 128,000

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, 2017, 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 $752,936 at September 30, 2018.

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.

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, 2018, the allowance for doubtful accounts was $130,521.

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 2018.

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 2018. 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 6% of resident fees in 2018. In addition, approximately 52% of the Organization's resident fees for 2018 are funded by two Virginia counties, and an additional 14% is funded by one state agency.

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 2018.

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 2018. 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.

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 for resident fees. 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.

Subsequent Events: Management has evaluated subsequent events through March 11, 2019, 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.

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, 2018, investments consist of the following:

	Cost	Market Value	Unrealized Gain (Loss)
Money market funds	$ 91,296	$ 91,296	$ -
Common stock	1,202,678	1,709,062	506,384
Mutual funds	10,486	13,888	3,402
Corporate bonds	222,145	218,870	(3,275)
Treasury bonds	14,922	14,830	(92)
	$ 1,541,527	$ 2,047,946	$ 506,419

Investment income, net consist of the following:

Interest and dividend income	$ 71,546
Realized and unrealized gains, net	89,008
	$ 160,554

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.

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, 2018.

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 and treasury 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.

5. Fair Value Measurements, Continued:

Assets and liabilities measured at fair value at September 30, 2018 include the following:

	Level 1	Level 2	Total
Assets:			
Investments:			
Money market funds	$ 91,296	$ -	$ 91,296
Common stocks:			
Closed-end mutual funds	63,169	-	63,169
Consumer discretionary	72,112	-	72,112
Consumer staples	160,443	-	160,443
Energy	187,381	-	187,381
Financials	343,585	-	343,585
Health care	213,813	-	213,813
Industrials	213,703	-	213,703
Information technology	154,395	-	154,395
Materials	96,997	-	96,997
Real estate investment trusts	140,687	-	140,687
Telephone	24,826	-	24,826
Utilities	37,951	-	37,951
Mutual funds	13,888	-	13,888
Corporate bonds	218,870	-	218,870
Treasury bonds	14,830	-	14,830
	$ 2,047,946	$ -	$ 2,047,946
Liabilities:			
Charitable gift annuity obligation	$ -	$ 275,703	$ 275,703

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.

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, 2018, is as follows:

	Annuity Obligation
Balance - beginning of year	$ 301,454
Annuity payments	(70,000)
Change in value	44,249
Balance - end of year	$ 275,703

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 $350,000, secured by certain assets of the Organization as described in the line of credit agreement. Interest on the outstanding principal balance accrues at the Wall Street Journal Prime Rate plus .25% (5.25% at September 30, 2018). The line is payable on demand. The balance on the line of credit was $250,000 at September 30, 2018.

9. Note Payable:

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 $105,952 at September 30, 2018.

9. Note Payable, Continued:

Future minimum principal payments on the note payable as of September 30, 2018, are as follows:

Year Ending September 30:	Amount
2019	$ 24,458
2020	25,658
2021	26,918
2022	28,918
	$ 105,952

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, 2018, was $260,710.

Future minimum principal payments as of September 30, 2018, are as follows:

Year Ending September 30:	Amount
2019	$ 14,652
2020	16,007
2021	17,487
2022	19,104
2023	20,870
Thereafter	172,590
	$ 260,710

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.

11. Restricted Net Assets:

Temporarily restricted net assets at September 30, 2018, consist of the following:

Affordable low income housing	$	346,608
Lights and paving		105
HPRV - Williamsburg		20,000
Accumulated endowment earnings		16,409
	$	383,122

Net assets were released from donor restrictions during 2018 by incurring expenses satisfying the restricted purposes, as follows:

Affordable low income housing	$	18,208
Lights and paving		6,733
Nurse practitioner salaries and related expenses		167,500
Occupational therapist		40,500
Strategic thinking and healthcare access		8,201
Resident supplies		3,000
Accumulated endowment earnings		70,000
	$	314,142

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.

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.

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, 2018.

Endowment net asset composition by type of fund was as follows as of September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowments	$ -	$ 16,409	$ 1,243,657	$ 1,260,066
Board-designated endowments	752,936	-	-	752,936
	$ 752,936	$ 16,409	$ 1,243,657	$ 2,013,002

Changes in endowment net assets were as follows for the year ended September 30, 2018:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets - beginning of year	$ 1,054,390	$ 16,468	$ 1,243,657	$ 2,314,515
Investment income	-	32,671	-	32,671
Net realized and unrealized gain	-	37,270	-	37,270
Transfers	(25,751)	-	-	(25,751)
Appropriated for expenditures	(275,703)	(70,000)	-	(345,703)
Endowment net assets - end of year	$ 752,936	$ 16,409	$ 1,243,657	$ 2,013,002

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 2018 in the amount of $106,349.

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 incurred by the Organization is paid to the board member by the investment company.

15. Commitments and Contingencies:

The Company leases equipment, office space, and treatment locations under operating leases expiring at various terms through August 2023. Future minimum payments under the leases are as follows at September 30, 2018:

Year Ending September 30:	Amount
2019	$ 348,973
2020	213,968
2021	143,525
2022	99,958
2023	83,200
	$ 889,624

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.